



**SINOSOFT**  
TECHNOLOGY

Sinosoft Technology Group Limited  
中國擎天軟件科技集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 1297

**ANNUAL REPORT 2017**



# Contents

Corporate Information	2
Financial Summary	4
Chairlady Statement	5
Management Discussion and Analysis	9
Biographical Details of Directors and Senior Management	16
Corporate Governance Report	20
Environmental, Social and Governance Report	33
Directors' Report	43
Independent Auditor's Report	56
Consolidated Statement of Profit or Loss and Other Comprehensive Income	62
Consolidated Statement of Financial Position	63
Consolidated Statement of Changes in Equity	64
Consolidated Statement of Cash Flows	65
Notes to the Consolidated Financial Statements	66

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### EXECUTIVE DIRECTORS

Ms. Xin Yingmei (*Chairlady*)

Mr. Yu Yifa

### NON-EXECUTIVE DIRECTOR

Mr. Hu Xiaoming, Simon

(appointment effective on 1 January 2017)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kang Choon Kiat

Mr. Kwauk Teh Ming, Walter

Mr. Zong Ping

### AUDIT COMMITTEE

Mr. Kwauk Teh Ming, Walter (*Chairman*)

Mr. Kang Choon Kiat

Mr. Zong Ping

### REMUNERATION COMMITTEE

Mr. Kang Choon Kiat (*Chairman*)

Mr. Kwauk Teh Ming, Walter

Mr. Yu Yifa

### NOMINATION COMMITTEE

Ms. Xin Yingmei (*Chairlady*)

Mr. Kwauk Teh Ming, Walter

Mr. Zong Ping

### INVESTMENT MANAGEMENT COMMITTEE

Mr. Kang Choon Kiat (*Chairman*)

Mr. Kwauk Teh Ming, Walter

Mr. Zong Ping

### AUTHORIZED REPRESENTATIVES

Mr. Yu Yifa

Dr. Ngai Wai Fung

## COMPANY SECRETARY

Dr. Ngai Wai Fung (*FCIS, FCS (PE), CPA, FCCA*)

## AUDITOR

Baker Tilly Hong Kong Limited

## REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

No. 26 Tianpu Road

Jiangpu Street

Pukou District

Nanjing City

Jiangsu

The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

18/F, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR  
AND TRANSFER OFFICE**

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

**PRINCIPAL BANKERS**

Shanghai Pudong Development Bank  
China Merchants Bank

**COMPANY WEBSITE**

[www.sinosoft-technology.com](http://www.sinosoft-technology.com)

**STOCK CODE**

1297

# FINANCIAL SUMMARY

A summary of the results and of the assets, equity and liabilities of the Group for the last five financial years was as follows -

## RESULTS

	2017 RMB'000	Year ended 31 December			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	<u>601,018</u>	<u>518,937</u>	<u>436,545</u>	<u>347,849</u>	<u>280,841</u>
Net profit before tax	<u>252,314</u>	<u>221,304</u>	<u>189,865</u>	<u>157,030</u>	<u>112,363</u>
Income tax expense	<u>(22,632)</u>	<u>(29,912)</u>	<u>(30,332)</u>	<u>(22,501)</u>	<u>(11,421)</u>
Net profit for the year	<u><u>229,682</u></u>	<u><u>191,392</u></u>	<u><u>159,533</u></u>	<u><u>134,529</u></u>	<u><u>100,942</u></u>

## ASSETS AND LIABILITIES

	2017 RMB'000	As at 31 December			
		2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
<b>Assets</b>					
Non-current assets	<u>342,060</u>	<u>324,699</u>	<u>223,831</u>	<u>176,993</u>	<u>134,520</u>
Current assets	<u>1,056,215</u>	<u>915,661</u>	<u>766,826</u>	<u>641,655</u>	<u>579,730</u>
Total assets	<u><u>1,398,275</u></u>	<u><u>1,240,360</u></u>	<u><u>990,657</u></u>	<u><u>818,648</u></u>	<u><u>714,250</u></u>
<b>Equity and liabilities</b>					
Equity attributable to owners of the Company	<u>1,180,927</u>	<u>1,035,298</u>	<u>880,342</u>	<u>740,997</u>	<u>621,909</u>
Non-current liabilities	<u>41,634</u>	<u>43,277</u>	<u>31,344</u>	<u>21,594</u>	<u>14,055</u>
Current liabilities	<u>175,714</u>	<u>161,785</u>	<u>78,971</u>	<u>56,057</u>	<u>78,286</u>
Total liabilities	<u><u>217,348</u></u>	<u><u>205,062</u></u>	<u><u>110,315</u></u>	<u><u>77,651</u></u>	<u><u>92,341</u></u>
Total equity and liabilities	<u><u>1,398,275</u></u>	<u><u>1,240,360</u></u>	<u><u>990,657</u></u>	<u><u>818,648</u></u>	<u><u>714,250</u></u>

## CHAIRLADY STATEMENT

On behalf of the board (the “Board”) of directors (the “Director(s)”) of Sinosoft Technology Group Limited (the “Company”), I am pleased to present to the shareholders the annual report and audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2017.

With the continuous development of China’s informatization market, the focus on software products and solutions has gradually shifted to the use of data analysis and services that are able to process complex issues as well as provide alerts through its use of advanced intelligent measures. The Group, who is a leader in the application for data analysis in its main business areas, has provided innovative industry application software and data value-added services for government departments and enterprises, that assist them in solving numerous problems while at the same time, helping to improve their work efficiency. These innovative products and data services have begun to generate revenue. For the year ended 31 December 2017, the Group recorded a year-on-year increase in revenue and profit and is expected to create a larger momentum in the future.

During the year under review, the Group integrated advanced technologies such as big data analytics, artificial intelligence, and cloud computing into different industrial application environments. Leveraging on the Group’s in-depth understanding of the demand in tax, low carbon ecology, and government big data markets, as well as seizing opportunities from government’s policies in open data and sharing, the Group has developed a number of products that are favored by customers. Among them, the Public Legal Service Network of China developed for the Ministry of Justice has become the basis for coordinating public legal service standards and technical specifications across the country, as well as the outline for public legal services informatization construction for different provinces and municipals, according to the “Establishment Guide for 12348 Legal Network of China (Public Legal Services Network of China)”. In addition, projects such as urban community grid management system and “Yun Shang Jian Ye”, which is jointly developed with Alibaba Cloud Computing Limited (“Alibaba Cloud”), the cloud computing arm of Alibaba Group Holding Limited, that is currently being sold to different provinces and cities for their usage, have created a whole new e-Government ecology and big data application environment, and becoming benchmarks for the industry.

Along with the continuous deepening reform in ecological civilization system, the central and local governments have successively introduced enhancing measures and related policy evaluation, supervision and appraisal mechanisms for green development and ecological civilization. Environmental rights trading systems such as pollution rights, energy usage rights, water usage rights, and carbon emission rights are being promoted in pilot areas, that makes the growth for low carbon and ecology market becomes more visible. The Group has deployed a wide range of products for low carbon, ecological monitoring and management, as well as environmental rights trading. During the year under review, new products such as provincial low carbon ecology cloud platform, low carbon transportation platform, environmental rights trading software, and asset operating software were launched. The provincial low carbon ecology cloud platform, which not only serves the government but also connects enterprises, institutions, and the public, is expected to facilitate the Group to provide carbon asset management system for enterprise through SaaS platform and obtain more sales opportunities.

## CHAIRLADY STATEMENT

For tax business, the Group has introduced a number of new products based on tax policies, tax payment trend and enterprises' demand during the year under review, which have been well received by customers. Some of these products established a foothold in traditional export tax rebate area, while others extended their features to new taxation policies that are actively promoted by the country, such as electronic invoices and allowable tax deductions. In addition, at the end of 2017, the Group teamed up with a number of financial institutions to launch financing services based on analysis in export tax rebate data, business operations status and industry export trend, which is expected to drive future revenue growth from extended services in tax related business.

## OUTLOOK

Along with rapid development of information technology in the entire society, nearly all activities in people's daily life are generating data. Digging massive data for analysis and learning is currently a major development in the information technology area. The Group utilized advanced technologies such as big data analytics and artificial intelligence to develop application software products. These products are able to help customers to greatly enhance working efficiency, forecasting and alerting of potential problems, etc. In addition, innovative data applications can create new business ecosystems and open up more possibilities for the Group to generate revenue through its data value-added services.

For tax software and related services, in addition to solidifying existing foundation in export tax rebate related product, service and training markets, the Group will propel its tax business along with the trend of internet application. Through promoting new products such as finance & tax cloud platform, customers reliance on the Group can be improved, scope of services can also extend from tax rebate to integrated services covering sourcing, trading, purchasing, customs clearance, and inspection, so as to provide different services such as "comprehensive business management platform + operation guidance" and "operation consultations" for export enterprises and foreign trade integrated service providers.

On the other hand, leveraging on the advantages of in-depth understanding in business and capability in big data analytics, the Group plans to promote various trend analyzing services and has located different target customer groups. Among them, data services for analyzing product types and industry trend can be sold to relevant industries and enterprises; data services for corporate profiling, overall operation status can be used by financial institutions to establish risks controlling and credit granting systems. Products and services planned by the Group focus more on the ability of computing and data analyzing with cloud-based, to cope with the trend in the internet era, which is characterized by integrating data for value multiplication effect, to significantly lower service and maintenance costs, and to intensify the cooperation with partners for promotions and sales across the country.

For low carbon & ecology software and related services, the central government's emphasis on ecological civilization has reached an unprecedented height. In early 2018, after the topic of ecological civilization was included in the "Constitution of the Communist Party of China", it was also written in the "Amendments to the Constitution of the People's Republic of China" with the establishment of "Beautiful China". A new national department for ecology and environment was restructured, to fully integrate and coordinate duties for ecological civilization. Moreover, in areas such as manufacturing, building, transportation and agricultural industries, relevant ministers are gradually launching development plans such as green manufacturing, green building, green

transportation, and green agriculture, to clarify actions and missions. Therefore, targets for green, low carbon, cyclic development of different levels of governments will become clearer, management work will become more specific, and pace of implementation will become faster. The Group will continue to target departments from different levels of governments including provinces, cities, counties, towns, and parks, to promote its products for carbon emission, ecological civilization monitoring and management, and environmental rights trading. The Group will also target different industries such as manufacturing, building, transportation and agricultural, and continue to promote application software related to “Internet+” green and energy saving, so as to increase sales.

In addition, with continuous implementation of “Made in China 2025”, “Green Manufacturing and Engineering Implementation Guide (2016-2020)”, and “Guidance on Deepening “Internet + Advanced Manufacturing” in Industrial Internet Development”, industrial enterprises have a deeper understanding and higher demand for green transformations and upgrades. The Group will leverage on massive data accumulated from tens of thousands enterprises across the country to take the lead to develop industrial internet cloud platform with the theme of “green low carbon”, and connect with relevant financial, consultation, technology, product and equipment companies from upstream and downstream, to empower industrial enterprises by online and offline services, so as to establish an industrial internet platform, and to generate revenue from cloud-based application software rental and value-added services. More product implementations and wider applications in technologies such as cloud computing, big data, and Internet of Things will help the Group to deepen its exploration into low carbon and ecology related data, so as to develop innovative green software products and value-added services to create new market and source of revenue.

For government big data software and related services, gradual implementation of the national big data strategy has led to a new stage of informatization market with data value-added as the core. Governments at all levels make use of the application of big data and artificial intelligence to enhance government management and public service standards as their major content of concrete measures for the implementation of 19th National Congress of the Communist Party of China. Several important government departments’ duties and division of labour have been adjusted, and clear requirements have been raised in the area such as in-depth promotion of the rule of law and comprehensive improvement in governing ability for governments at all levels. In the future, government departments will place greater emphasis on using information technology for refined social management, and higher reliance on advanced technology to establish risks alerts system for social stability.

The Group, which has conducted in-depth research on the combination of big data applications and government business and fully tapping on its industry experience, has developed data sharing and business integration products and services for a number of relevant government departments. As these products are highly synchronized with government informatization market development, the Group’s reputation and product influence in the government service industry are increasing. The Group will continue to leverage on its leading position in judicial and public security industry, to rapidly promote relevant products in different provinces and cities. For markets which have implemented relevant platforms, the Group will launch upgraded platform with more powerful analyzing ability and higher degree of automation through the use of technologies such as big data analytics and artificial intelligence, and strive to provide different data value-added services, so as to increase the proportion of recurring revenue. In addition, the Group will continue to replicate the model of “Yun Shang Jian Ye”, which is jointly developed with Alibaba Cloud, to promote one-stop “smart government”, which integrates the Group’s products in various fields such as public services, society governance, and government management, to different regions.



## CHAIRLADY STATEMENT

Leveraging on years of experience and in-depth understanding in the Group's major business areas, combining the ability in integrating data analysis to applications, the Group will intensify its development in data value-added services on the foundation of continuous sales in application software products, to prepare for greater market and more rapid growth in the future.

**Xin Yingmei**

*Chairlady*

Hong Kong, 26 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE

For the year ended 31 December 2017, the Group's revenue recorded approximately RMB 601.0 million, representing a 15.8% growth when compared to RMB 518.9 million for the same period in 2016. During the year under review, all of the Group's core business segments, namely tax software and related services, low carbon & ecology software and related services and government big data software and related services recorded increase in revenue that in turn contributed to the overall revenue growth of the Group.

### Tax Software and Related Services

During the year under review, despite the challenges brought about by the continuous economic and export slowdown, the Group flexibly adjusted its strategies to cooperate with large foreign trade integrated service providers, to offer comprehensive export tax rebate risks control solutions that cover their full business process, which achieved satisfactory results. Together with the new products launched in the second half of the year that were favored by the market, revenue from tax software and related services for the year ended 31 December 2017 amounted to approximately RMB 153.4 million, representing an increase of approximately 13.9% when compared with approximately RMB 134.7 million for the same period in 2016.

### Low Carbon & Ecology Software and Related Services

As the Group continuously expands its low carbon related products and business and has reached the area of ecological civilization, the Group changed this segment name from carbon management solutions to low carbon & ecology software and related services, in order to better describe the nature of its current business. The change in segment name does not affect the comparative figures.

During the year under review, the Group launched products such as provincial low carbon cloud, ecology cloud, environmental rights trading platform, and low carbon transportation software. The Group also implemented low carbon & ecology management solutions in low carbon pilot cities and ecological civilization demonstration areas. Together with the upgrading demand for relevant cloud platforms and sales of carbon asset management systems to large corporations, the revenue from low carbon & ecology software and related services for the year ended 31 December 2017 amounted to approximately RMB 113.5 million, representing an increase of approximately 14.1% when compared with approximately RMB 99.5 million for the same period in 2016. During the year under review, the Group's products for low carbon & ecology software and related services were sold to different markets beyond Jiangsu Province, including Inner Mongolia Autonomous Region, Jilin Province and Heilongjiang Province.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Government Big Data Software and Related Services

As the Group applies big data technology in its government related products and provides different services based on big data analytics, the Group changed this segment name from e-Government solutions to government big data software and related services, in order to precisely describe its business focus. The change in segment name does not affect the comparative figures.

Benefited from profound business experience in the field of government services, as well as the ability to integrate business with big data and artificial intelligence technologies, the scale of government projects obtained by the Group has greatly increased during the year under review. Revenue from government data analysis services and public service related products have also increased significantly. Under this trend, judicial and public security related products were sold to more than ten provinces and cities including Hebei, Tianjin, Gansu, Inner Mongolia, Hubei, Fujian and Qinghai. Integrated solutions and products with cloud platform structure also received increased demand for upgrades. Revenue from government big data software and related services for the year ended 31 December 2017 amounted to approximately RMB 290.7 million, representing an increase of approximately 23.2% when compared with approximately RMB 236.0 million for the same period in 2016.

### System Integration Solutions

System integration solutions is not the Group's key business segment, but a complementary service to the Group's other solutions purporting to provide a total solutions service to the Group's customers. During the year ended 31 December 2017, revenue generated from system integration solutions segment amounted to RMB 43.4 million, as compared to approximately RMB 48.8 million for the same period in 2016. The decrease in revenue generated from system integration solutions was mainly due to the demand for provision of hardware was not as high as the previous year.

## COST OF SALES

The Group's cost of sales is largely made up of amortisation of capitalised software development cost as well as the costs for purchasing system and components for some of its projects. During the year under review, in line with prior periods, the Group intensified its investment in developing new products, which led to increases in both amortisation cost of software development and cost for purchasing system and components. These have resulted in an increase of approximately 19.5% in the Group's cost of sales, from approximately RMB 194.3 million during the year ended 31 December 2016 to approximately RMB 232.3 million during the year ended 31 December 2017.

### SEGMENT RESULTS AND SEGMENT RESULTS MARGIN

The Group's total segment results (representing the sum of revenue and value-added tax refund less cost of sales and research and development costs) grew by approximately 20.1% from approximately RMB 279.4 million during the year ended 31 December 2016 to approximately RMB 335.7 million during the year ended 31 December 2017. The increase was primarily due to an increase in total revenue during the period under review.

The Group's segment results margin increased from approximately 53.8% for the year ended 31 December 2016 to approximately 55.9% for the year ended 31 December 2017, primarily due to the increase in segment results margin for low carbon & ecology software and related services as well as government big data software and related services.

### RESEARCH AND DEVELOPMENT COSTS

For the year ended 31 December 2017, the Group's research and development ("R&D") costs decreased by approximately 27.2% to approximately RMB 45.3 million as compared with approximately RMB 62.2 million for the year ended 31 December 2016. This decrease was due partly to the decrease in the amortisation of purchased software for R&D activities by approximately RMB 11.2 million that was the result of the lower amount of addition of purchased software in 2016 and 2017 as compared to 2015. Apart from the amortisation of purchased software for R&D activities, R&D costs also included rental, utilities and other expenses associated with the Group's R&D department. Whilst expenses for this department excluding rental has increased slightly by approximately RMB 1.5 million, saving in rental costs of about RMB 7.2 million (after the acquisition of Nanjing Aisita Real Estate Co., Limited ("Nanjing Aisita") on 12 September 2016, whose assets included the office building in Nanjing, which the Company used to pay rental as a tenant) partly contributed to the overall decrease in the Group's R&D cost.

### OTHER INCOME AND GAINS

The Group's other income and gains, which was mainly made up of the interest income earned from bank deposits, increased by approximately 15.5% from approximately RMB 10.3 million for the year ended 31 December 2016 to approximately RMB 11.9 million for the year ended 31 December 2017.

### DISTRIBUTION AND SELLING EXPENSES

The Group's distribution and selling expenses increased from approximately RMB 29.4 million during the year ended 31 December 2016 to approximately RMB 47.3 million during the year ended 31 December 2017, partly due to an increase in the salaries, bonus and related staff expenses as well as an increase in the number of staff due to the proactive business expansion of the Group's business. In addition, as part of the Group's strategy to develop more markets, the Group has also reallocated staff previously from product development to market development as they have in-depth knowledge of the Group's products and can greatly contribute to the expansion and capturing of more markets.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ADMINISTRATIVE AND GENERAL EXPENSES

The Group's administrative and general expenses increased from approximately RMB 38.5 million during the year ended 31 December 2016 to approximately RMB 45.8 million during the year ended 31 December 2017, mainly as a result of the acquisition of Nanjing Aisita. Although the acquisition has brought about overall cost savings to the Group as a whole, the consolidation of this subsidiary into the Group has resulted in an increase in the amount recognised as administrative and general expenses. This increase is mainly the result of an increase in depreciation of approximately RMB 3.1 million from the depreciation of the buildings and approximately RMB 4.5 million of expenses to support the maintenance of the premises.

### OTHER EXPENSES AND LOSSES

Other expenses and losses of the Group, which was mainly made up of foreign exchange losses, increased from RMB 0.5 million for the year ended 31 December 2016 to RMB 2.2 million for the year ended 31 December 2017.

### INCOME TAX EXPENSES

The Group's income tax expenses decreased from approximately RMB 29.9 million for the year ended 31 December 2016, to approximately RMB 22.6 million for the year ended 31 December 2017. The decrease was mainly due to a decrease in the tax rate used of 15% (2016: 25%) as a result of the recognition as a "High-tech Enterprise" to calculate deferred tax on capitalised software costs. This decrease in the tax rate used resulted in a credit to the profit and loss account of approximately RMB 1.6 million in the current year, compared to a charge of approximately RMB 11.9 million in the prior year to the profit and loss account. In addition, there was a write back of income tax expense amounting to approximately RMB 4.3 million in 2016 for the overprovision of tax expense for the year ended 31 December 2015 because of the timing difference in approval of the reduced applicable tax rate of 10% under the "Key Software Enterprise under the National Plan" for the year ended 31 December 2015. No such write back was required for the year ended 31 December 2017 as the reduced applicable tax rate of 10% was used in the year ended 31 December 2016.

### PROFIT AND TOTAL COMPREHENSIVE INCOME

Profit and total comprehensive income of the Group for the year ended 31 December 2017 amounted to approximately RMB 229.7 million, representing an increase of approximately 20.0% as compared with approximately RMB 191.4 million for the year ended 31 December 2016. For the year under review, segment results margin for both low carbon & ecology software and related services as well as government big data software and related services increased. Together with the decrease in tax expenses, has contributed to the increase in the Group's net profit margin from approximately 36.9% in the same period of 2016 to 38.2% in 2017.

### NET CURRENT ASSETS

As at 31 December 2017, the Group had net current assets of RMB 880.5 million (31 December 2016: RMB 753.9 million).

### TRADE RECEIVABLES

During the reporting period, the trade receivables turnover increased by 91 days to 410 days (the average of the trade receivables balance at the beginning and the end of the year divided by the total revenue of the year times 365 days) (2016: 319 days).

The Group's trade customers are principally government agencies and the Group offered credit terms to them with reference to the expected timing of settlement being around one year. A longer credit term may be extended to certain customers depending on price, the size of the contract, credibility and reputation of the customers. At 31 December 2017, 59% of the trade receivables (31 December 2016: 68%) are neither considered as past due nor impaired.

Subsequent to the year under review and as of the date of this annual report, the Group has collected RMB 56.5 million of trade receivables, representing 7.1% of trade receivables outstanding as of 31 December 2017.

Before accepting any new projects, the Group assesses the potential customers' credit quality. In addition, the Group continues to enforce strict credit terms and overdue balances are reviewed regularly by management, although there are inevitable delay in payment from certain direct government customers.

### FINANCIAL RESOURCES, LIQUIDITY AND CAPITAL STRUCTURE

During the year ended 31 December 2017, the Group's primary source of funding came from cash generated from its operating activities, the net cash inflow from operating activities amounted to approximately RMB 172.8 million (2016: approximately RMB 170.5 million). As at 31 December 2017, the Group had cash and cash equivalent of RMB 240.3 million (31 December 2016: RMB 277.4 million).

As at 31 December 2017, the Group had no borrowings (31 December 2016: Nil).

The capital structure of the Group consists of net debt, which includes the borrowings net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves. For more details, please refer to notes 5, 22 and 23 to the consolidated financial statements.

### CHARGE ON ASSETS

As at 31 December 2017, the Group had no charge on assets.

### CONTINGENT LIABILITIES

As at 31 December 2017, except disclosed in note 36 to the consolidated financial statements, the Group had no other significant contingent liabilities.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN EXCHANGE EXPOSURE

The primary economic environment in which the Group operates is in the PRC and its functional currency is RMB. However, certain of the Group's bank balances, other payables are denominated in United States Dollar ("USD") and Hong Kong Dollar ("HKD"), which are currencies other than the functional currency of the relevant group entities which may expose the Group to foreign currency risk.

During the year under review, the Group recorded an exchange loss of approximately RMB 1.8 million (31 December 2016: exchange loss of approximately RMB 56,000). This exchange loss was a result of the appreciation of RMB against the USD and HKD as during the year under review, the Group had net assets denominated in USD and HKD.

No currency hedging arrangements were made as at 31 December 2017. The Group will continue to closely monitor and manage its exposure to fluctuation in foreign exchange rates and make appropriate arrangement as and when necessary.

### INTANGIBLE ASSETS

The Group's intangible assets consist mainly of capitalised software costs and purchased software. The increase in intangible assets was mainly attributable to the addition to capitalised software costs of approximately RMB 97.4 million (31 December 2016: RMB 61.7 million) and the addition to purchased software of RMB 41.3 million (31 December 2016: RMB 40.1 million) less the amortisation charges for the year under review.

### SIGNIFICANT INVESTMENTS

For the year ended 31 December 2017, the Group did not have any significant investments.

### MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2017, the Group did not have any material acquisitions and disposals of its subsidiaries and associated companies.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Except disclosed in note 37 to the consolidated financial statements, the Company does not have any future plans for significant investments or capital assets as at the date of this annual report.

### HUMAN RESOURCES

As at 31 December 2017, the Group had a total of 693 employees (31 December 2016: 635). The Group offered competitive salary packages, as well as discretionary bonuses and contribution to social insurance to its employees. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees managed by its human resources department. The Company has also adopted a share option scheme and share award scheme to recognise and motivate contributions of its employees. Further details regarding the share option scheme and share award scheme is set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme" on pages 52 to 54 of this annual report.

### FINAL DIVIDEND

At the meeting of the Board held on 26 March 2018, the Board proposed the payment of a final dividend of RMB 2.78 cents per share (2016: RMB 2.33 cents per share) for the year ended 31 December 2017, subject to the approval by the shareholders at the annual general meeting of the Company scheduled to be held on Tuesday, 12 June 2018 (the "AGM"). Based on 1,238,709,600 Shares in issue as at the date of this annual report, the proposed final dividend amounts to approximately RMB 34,436,127 (2016: approximately RMB 28,861,934) and is subject to approval by the shareholders at the AGM.

The final dividend will be payable in Hong Kong Dollars based on the average of the central parity rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China for the 5 business days immediately preceding the date of AGM at which the final dividend was declared. Subject to the approval by the shareholders at the AGM, the proposed final dividend is expected to be paid on or about Thursday, 12 July 2018 to the shareholders whose names appear on the Company's registers of members at the close of business on Tuesday, 19 June 2018.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Ms. XIN Yingmei (辛穎梅)**, aged 50, is the chairlady, executive Director and chief executive officer of the Company. Ms. Xin was appointed as the Director on 6 January 2011, re-designated as executive Director on 31 October 2012 and re-elected as executive Director on 22 May 2015. She is a co-founder of Nanjing Skytech Co., Limited (“Nanjing Skytech”) and is also a director of the Group’s subsidiaries, namely Nanjing Skytech, Infotech Holdings Pte. Ltd., Jiangsu Skyinformation Co., Limited (“Jiangsu Skyinformation”), Nanjing Skytech Quan Shui Tong Information Technology Co., Limited (“Quan Shui Tong”), Zhenjiang Skyinformation Co., Limited (“Zhenjiang Skyinformation”), Jiangsu Skytech Investment Management Co., Limited and Qingdao Skytech Software Co., Limited. She is primarily responsible for the overall business operations and strategies and policies formulation of the Group. Ms. Xin has over 25 years of experience in the IT industry and is a professional senior engineer. Ms. Xin was accredited as a professional senior engineer by Professional Senior Qualification Accreditation Committee of Jiangsu Province (江蘇省高級專業技術資格評審委員會) on 25 November 2010. Prior to co-founding Nanjing Skytech in 1998, she was a technician of the National Sports Commission Information Centre (國家體委信息中心) from 1987 to 1992. From 1992 to 1995, she was the general manager of Nanjing Olympic Computer Co., Limited (南京奧林匹克電腦有限公司). From 1995 to 1998, she was the general manager and vice chairlady of Honest Electronics Corporation Ltd. (奧尼斯特電子集團有限公司). Ms. Xin obtained her master’s degree in business administration from Nanjing University (南京大學) in September 2008. She is a member of the Twelve Chinese People’s Political Consultative Conference (第十二屆全國政協委員) and has won several awards for her achievements including “National Key Personnel in the Promotion of the Software Industry” (推動中國軟件產業發展功勳人物), “National Outstanding Entrepreneur in the Software Industry” (中國軟件產業傑出企業家) and “Jiangsu Province Outstanding Entrepreneur in the Software Industry” (江蘇省優秀軟件企業家). Ms. Xin is the spouse of Mr. Wang Xiaogang, a member of the senior management of the Group.

**Mr. YU Yifa (余義發)**, also known as Er Ngee Huat, aged 43, is the executive Director and chief financial officer of the Company. Mr. Yu was appointed as the Director on 4 April 2011, re-designated as executive Director on 31 October 2012 and re-elected as executive Director on 10 June 2017. He is primarily responsible for supervising the financial reporting, corporate finance, treasury, tax and other related finance matters of the Group. He has over 17 years of experience in finance. Mr. Yu joined the Group as the chief financial officer of Nanjing Skytech in April 2009. Prior to joining the Group, Mr. Yu was an accountant in Kleans Corporation Pte. Ltd. from 2001 to 2002. From 2002 to 2005, Mr. Yu worked in KPMG, Singapore as senior auditor. From 2005 to 2009, he worked as an accountant at Willowglen Services Pte. Ltd. and an accounting manager at JCB Sales Asia Pacific Pte. Ltd., a member of the JCB Group. From April 2009 to December 2010, he was the executive director and chief financial officer of Sinosoft Technology Limited, a company which has been dissolved on 11 February 2014 by way of its members’ voluntary winding up. Mr. Yu received his bachelor’s degree in commerce (accountancy) from the University of Southern Queensland in April 1999 and a master’s degree in commerce, specialising in advanced accounting from the University of New South Wales in July 2000. He is a certified practicing accountant of the CPA Australia.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### NON-EXECUTIVE DIRECTOR

**Mr. HU Xiaoming, Simon (胡曉明)**, aged 47, is the non-executive Director of the Company. Mr. Hu was appointed as the non-executive Director with effect from 1 January 2017 and re-elected as the non-executive Director on 10 June 2017. He has over 20 years of experience in finance and various management positions. Mr. Hu is currently a senior vice president of Alibaba Group Holding Limited (“Alibaba Group”), a company listed on the New York Stock Exchange as well as president of Alibaba Cloud. He is also an independent director of Zhejiang Daily Media Group Co., Limited (stock code 600633), a company listed on the Shanghai Stock Exchange, since April 2016. From October 2014 to February 2016, Mr. Hu was also a director of Hundsun Technologies Inc, (stock code 600570), a company listed on the Shanghai Stock Exchange. Prior to his current position as a senior vice president of Alibaba Group, Mr. Hu served in various management positions within the Alibaba Group. From November 2013 to October 2014, he was the chief risk officer of Ant Financial Services Group (“Ant Financial”). Prior to this, he served as the general manager of the small medium enterprise loan business of Alibaba Group. Before joining the Alibaba Group, he spend over 10 years working in various finance roles in financial institutions such as China Construction Bank and China Everbright Bank. Mr. Hu received his bachelor’s degree in finance from Zhejiang University in June 2002 and a master’s degree in business administration from China Europe International Business School in September 2010.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KANG Choon Kiat (江春杰)**, aged 54, is the independent non-executive Director. Mr. Kang was appointed as the independent non-executive Director on 31 October 2012 and re-elected as the independent non-executive Director on 28 June 2016. He has over 25 years of experience in the finance industry. From 1999 to 2002, Mr. Kang worked at Citibank and last held the position of vice president of the foreign exchange department. Mr. Kang was a managing director in foreign exchange derivatives team, private wealth management of Bank of America Merrill Lynch in Singapore from 2007 to 2012, responsible for developing the private wealth management foreign exchange business of the bank, creating and implementing foreign exchange platforms and systems, supervising the foreign exchange team members, conducting foreign exchange workshops, training sessions and seminars for clients, providing foreign exchange market and trading advisory and managing foreign exchange trading accounts. Mr. Kang received his bachelor’s degree in engineering from National University of Singapore in June 1988 and master of business administration degree from Oklahoma City University in December 1996. Mr. Kang was also recognised by Investment Management Consultants Association in August 2002 as a certified investment management consultant.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. KWAIK Teh Ming, Walter (郭德明)**, aged 65, is the independent non-executive Director. Mr. Kwauk was appointed as the independent non-executive Director on 31 October 2012 and re-elected as the independent non-executive Director on 28 June 2016. He has over 25 years of experience in accounting. Mr. Kwauk is currently a consultant of Motorola Solutions, Inc. and an independent director of Alibaba Group Holding Limited, a company listed on the New York Stock Exchange, where he serves as chairman of the audit committee. Mr. Kwauk is also the independent non-executive director of several private companies. Mr. Kwauk served in KPMG from 1977 to 2002, holding a number of senior positions including general manager of KPMG's joint venture accounting firm in Beijing, managing partner in KPMG's Shanghai office and partner in KPMG's Hong Kong office. Mr. Kwauk was a vice president of Motorola Solution Inc. and its director of corporate strategic finance and tax, Asia Pacific from January 2003 to June 2012. Mr. Kwauk also served as an independent non-executive director of Alibaba.com Limited from October 2007 to July 2012. Mr. Kwauk is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor's degree in science in May 1975 and a licentiate's degree in accounting from the University of British Columbia in May 1977.

**Mr. ZONG Ping (宗平)**, aged 61, is the independent non-executive Director. Mr. Zong was appointed as the independent non-executive Director on 31 October 2012 and re-elected as the independent non-executive Director on 10 June 2017. He has extensive experience in teaching computer science and research in the related field. From 1992 to 1995, Mr. Zong worked as a visiting scholar at Oldenburg University in Germany. From 2002 to 2004, Mr. Zong was a professor at Hohai University (河海大學). From 2004 to present, Mr. Zong has been a professor at Nanjing University of Posts and Telecommunications (南京郵電大學). Mr. Zong is currently a senior member of the China Computer Federation (中國計算機學會), a member of the council of Jiangsu Province Computer Society (江蘇省計算機學會理事) and a member of Information Industry Expert Committee of Jiangsu Province (江蘇信息產業專家委員會). Mr. Zong received a bachelor's degree in computing from East China College of Hydraulic Engineering (華東水利學院), now known as Hohai University (河海大學) in February 1982 and a doctorate degree in water conservancy and hydropower engineering from Hohai University (河海大學) in April 2008.

## SENIOR MANAGEMENT

**Mr. WANG Xiaogang (汪曉剛)**, aged 55, is the senior vice president of the Company. Mr. Wang is responsible for the overall management and operation of the Group's R&D and technological advancement. Mr. Wang is a co-founder of Nanjing Skytech and is also the vice president and general manager of Nanjing Skytech, where he is primarily responsible for the overall management of the Company's R&D and technological advancement. Mr. Wang is also a director of Nanjing Skytech and Jiangsu Skyinformation. He has over 15 years of experience in the computer software and hardware industry gained in the Group. Mr. Wang received his bachelor's degree in computer engineering from the People's Liberation Army School of Electronic Technology (解放軍電子技術學校), now known as People's Liberation Army Information Engineering University (中國人民解放軍信息工程大學), in July 1985. Mr. Wang also won several awards, namely the "Jiangsu Province Outstanding Technology Technician" (江蘇省優秀科技工作者) award in 2004, "Nanjing Young Industry Technology Leader" (南京市中青年行業技術、學科帶領人) award in 2004 and "Top 10 Nanjing City Leader in Software Industry" (南京市軟件企業十大領軍人物) award in 2008. Mr. Wang is the spouse of Ms. Xin, the chairlady, executive Director and chief executive officer of the Group.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. MA Ming (馬明)**, aged 48, is the vice president of the Company. Mr. Ma is responsible for the sales and marketing and customer services of the Group. Mr. Ma is a co-founder of Nanjing Skytech and is also the vice president of Nanjing Skytech, where he is primarily responsible for the business development and product marketing of the software division of the company. He is also a director of Nanjing Skytech, Jiangsu Skyinformation, Zhenjiang Skyinformation and a general manager of Zhenjiang Skyinformation. Mr. Ma has over 20 years of experience in the software industry. Prior to co-founding Nanjing Skytech in 1998, he was a department manager in Nanjing Honest Electronics Co., Ltd. (南京奧尼斯特有限公司) from 1994 to 1999. Mr. Ma received a diploma in computer science and technology from Nanjing University of Science and Technology (南京理工大學) in July 1999 through distance learning.

**Mr. ZHANG Hong (張虹)**, aged 57, is the vice president of the Company. Mr. Zhang is responsible for the research and development of the Group's computer programmes and software. Mr. Zhang is a co-founder of Nanjing Skytech and is also the chief engineer, where he is primarily responsible for the research and development of software. He is also a director of Nanjing Skytech and Jiangsu Skyinformation. Mr. Zhang has over 18 years of experience in the research and development of software. Prior to co-founding Nanjing Skytech in 1998, Mr. Zhang worked as a researcher in a research centre in Nanjing from 1982 to 1999. Mr. Zhang received a bachelor's degree in wireless technology from Nanjing Institute of Technology (南京工學院), now known as Southeast University (東南大學) in July 1982.

**Ms. XU Fang (徐放)**, aged 46, is the head of human resource department of the Company. Ms. Xu is responsible for the human resource management of the Group. Ms. Xu joined the Group in 2006 and is a director of Quan Shui Tong and Zhenjiang Skyinformation. She has over 25 years of experience in the human resource management industry. Prior to joining the Group in 2006, she was a human resource manager at Panda Electronics Group (熊貓電子集團). Ms. Xu received her bachelor's degree in management engineering (management science) from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) through part-time studies in July 1998 and a master's degree in business administration from Nanjing University (南京大學) in December 2005.

Save as otherwise disclosed, there is no relationship between any of members of the Board and senior management, and there is no information relating to the Directors which is required to be disclosed pursuant to Rules 13.51(2) and 13.51(B)(1) of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Group recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures. In order to safeguard the interests of shareholders and to enhance corporate values and accountability, the Group is committed to maintaining high standards of corporate governance. The Company has adopted the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors, having reviewed the corporate governance practices of the Company, confirm that the Company has complied with all the applicable code provisions as set out in the CG Code throughout the year ended 31 December 2017, save for the deviation of code provision A.2.1 of the CG Code.

## CHAIRLADY AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company does not segregate the roles of chairlady and chief executive officer and Ms. Xin Yingmei is currently the chairlady and chief executive officer of the Company responsible for overseeing the operations of the Group.

The Board has considered the merits of separating the roles of chairlady and chief executive but is of the view that it is in the best interests of the Company to vest the two roles in Ms. Xin Yingmei. The Board considers vesting the two roles in Ms. Xin Yingmei will ensure the Company is under a consistent leadership and facilitates the implementation and execution of the Group’s business strategies currently and in the foreseeable future. The Group will nevertheless review the structure from time to time in light of the prevailing circumstances.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set forth in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. The Company has made specific enquiries with the Directors and all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017. The Company was not aware of any incidence of non-compliance with the Model Code by the Directors during the year ended 31 December 2017.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director, a written annual confirmation of his independence to the Company pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the relevant guidelines set out in Rule 3.13 of the Listing Rules.

## THE BOARD

### Directors' Responsibility in Respect of the Financial Statements

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2017. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 56 to 61.

### Function of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board shall take decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective operation. The Board has delegated the authority and responsibilities to the management for the day-to-day operations of the Group.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

### Board Composition

As at the date of this annual report, the Board comprises two executive Directors, one non-executive Director and three independent non-executive Directors. At least one of the independent non-executive Directors possess the appropriate professional accounting qualifications and financial management expertise, which complies with the requirements of the Listing Rules. The Company has complied with rules 3.10 and 3.10A of the Listing Rules. During the year ended 31 December 2017 and to the date of this annual report, the number of independent non-executive Directors represents more than one-third of the Board. As such, there exists a strong independent element in the Board, which can effectively exercise independent judgment.

The independent non-executive Directors are highly skilled professionals with a broad range of expertise and experience in the fields of accounting, auditing, investments and IT. Their skills, expertise and number in the Board ensure that strong independent views and judgment are brought in the Board's deliberations and that such views and judgment carry weight in the Board's decision-making process. Their presence and participation also enable the Board to maintain high standards of compliance in financial and other mandatory reporting requirements, and provide adequate checks and balances to safeguard the interest of the Company and its shareholders.

## CORPORATE GOVERNANCE REPORT

The Board comprises the following Directors:

### **Executive Directors**

Ms. Xin Yingmei (*Chairlady*)

Mr. Yu Yifa

### **Non-executive Director**

Mr. Hu Xiaoming, Simon

### **Independent non-executive Directors**

Mr. Kang Choon Kiat

Mr. Kwauk Teh Ming, Walter

Mr. Zong Ping

There are no relationships (including financial, business, family or other material/relevant relationships) among members of the Board. The brief biographic details of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 16 to 19.

### **Appointment and Re-Election of Directors**

All Directors are appointed for a specific term. Each of the executive Directors of the Company is under a service contract with the Company for a term of three years commencing on 9 July 2016, the non-executive Director has entered into a letter of appointment with the Company for a term of three years commencing on 1 January 2017, whereas each of the independent non-executive Directors have entered into a letter of appointment with the Company for a term of three years commencing on 31 October 2015.

The procedures and process of appointment, re-election and removal of directors are laid down in the articles of association of the Company (the “Articles of Association”). According to the Articles of Association, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election at the Company’s annual general meeting. Any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next annual general meeting.

In accordance with Article 84 of the Articles of Association, Ms. Xin Yingmei, an executive Director, and Mr. Kwauk Teh Ming, Walter, an independent non-executive Director shall retire and being eligible, shall offer themselves for re-election at the AGM.

At the AGM, ordinary resolutions will be proposed to re-elect Ms. Xin Yingmei as an executive Director and Mr. Kwauk Teh Ming, Walter as an independent non-executive Director.

The Board and the Nomination Committee recommend their re-appointment. A circular, which will contain detailed information of the above two retiring Directors as required by the Listing Rules will be sent to the Company’s shareholders in due course.

### Directors' Training

All Directors confirmed that they had complied with code provision A.6.5 of the CG Code throughout the year ended 31 December 2017, all Directors had participated in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2017, the Company has arranged two in-house training sessions, covering topics on the Listing Rules updates, internal controls and PRC laws. These were conducted by the Company's Hong Kong legal adviser, internal control auditor and PRC legal adviser. All relevant training materials have been distributed to the Directors. The topics covered include CG Code, inside information, Listing Rules and disclosure obligations in Hong Kong, notifiable transactions, connected transactions, operational risk, fraud risk management, fundamentals of internal control, etc.

Name of Directors	Topics on training covered
Ms. Xin Yingmei	I, L, P
Mr. Yu Yifa	I, L, P
Mr. Hu Xiaoming, Simon	I, L, P
Mr. Kang Choon Kiat	I, L, P
Mr. Kwauk Teh Ming, Walter	I, L, P
Mr. Zong Ping	I, L, P

Note:

I: Internal control

L: Listing Rules updates

P: PRC laws

### BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

During the year ended 31 December 2017 and up to the date of this annual report, the Company has a solid slate of Directors with diverse perspectives and varied educational background and expertise made-up, from extensive knowledge of the IT industry, experience in international trade, finance, investment and corporate management, to professional qualifications in the accounting and auditing fields. Each Director had accumulated experience in his/her respective field of expertise for over 10 years, all of whom are anchored by the common trait of having a natural aptitude and singular drive for the industry so as to bring sustainable growth to the Company.



## CORPORATE GOVERNANCE REPORT

### Board Meeting and Procedures

Pursuant to code provision A.1.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year.

The Board may meet together for the dispatch of business, adjourn and otherwise regulate its meetings and proceedings as it thinks fit and may determine the quorum necessary for the transaction of business. An annual general meeting and an extraordinary general meeting called for the passing of a special resolution shall be called by at least 21 clear days' notice in writing, and a meeting of the Company other than an annual general meeting or extraordinary general meeting for the passing of a special resolution shall be called by at least 14 clear days' notice in writing. A meeting of the Board or any committee of the Board may be held by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting.

If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the Director shall abstain from voting on the relevant resolutions and he/she shall not be counted as a quorum in the Board meeting discussing the matter concerned.

Set out below are details of the attendance record of each Director at the Board meetings, committee meetings and general meetings of the Company held during the year ended 31 December 2017:

Name of Directors	Attendance/Number of Meetings Held					
	Regular Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee	Investment Management Committee	Annual General Meeting
<b>Executive Directors</b>						
Ms. Xin Yingmei	(Chairlady) 5/5	—	(Chairlady) 2/2	—	—	1/1
Mr. Yu Yifa	5/5	—	—	2/2	—	1/1
<b>Non-executive Director</b>						
Mr. Hu Xiaoming, Simon	2/5	—	—	—	—	0/1
<b>Independent Non-executive Directors</b>						
Mr. Kang Choon Kiat	5/5	2/2	—	(Chairman) 2/2	(Chairman) 2/2	0/1
Mr. Kwauk Teh Ming, Walter	5/5	(Chairman) 2/2	2/2	2/2	2/2	1/1
Mr. Zong Ping	5/5	2/2	2/2	—	2/2	(Chairman) 1/1

### BOARD COMMITTEES

The Board has established four committees, namely, the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the investment management committee (the "Investment Management Committee"), for overseeing particular aspects of the Group's affairs. All committees have been established with defined written terms of reference, which were posted on the Company's website ([www.sinosoft-technology.com](http://www.sinosoft-technology.com)) and the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). All committees should report to the Board on their decisions or recommendations made.

All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Audit Committee

The Audit Committee was established on 11 June 2013 with terms of reference in compliance with the CG Code for the purpose of making recommendations to the Board on the appointment and removal of the external auditor, reviewing the financial statements and related materials and providing advice in respect of the financial reporting process, and overseeing the internal control procedures of the Group. The Audit Committee comprises three members, all being independent non-executive Directors, namely, Mr. Kwauk Teh Ming, Walter (Chairman), Mr. Kang Choon Kiat and Mr. Zong Ping. The Group's accounting principles and practices, financial statements and related materials for the year ended 31 December 2017 had been reviewed by the Audit Committee.

During the year ended 31 December 2017, the Audit Committee held two meetings for discussion on issues arising from the audit and financial reporting matters.

Full minutes of the Audit Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Audit Committee meetings were sent to all members of the Audit Committee for comments and approval and all decisions of the Audit Committee were reported to the Board subject to applicable restriction.

The external auditors were invited to attend the Audit Committee meetings held during the year ended 31 December 2017 to discuss with the Audit Committee members on issues arising from the audit and financial reporting matters. The Chairman of the Audit Committee provided the Board with a briefing on the significant issues after each Audit Committee meeting. There was no disagreement between the Board and the Audit Committee on the selection and appointment of external auditors.

The terms of reference of the Audit Committee are available on the website of the Company and of the Stock Exchange.

### Nomination Committee

The Nomination Committee was established on 11 June 2013, with specific written terms of reference in compliance with the CG Code for reviewing the Board composition, developing the relevant procedures for nomination and appointment of Directors and assessing the independence of the independent non-executive Directors to ensure that the Board has a balance of expertise, skills and experience. The Nomination Committee comprises a total of three members, being one executive Director, namely, Ms. Xin Yingmei (Chairlady), and two independent non-executive Directors, namely, Mr. Kwauk Teh Ming, Walter and Mr. Zong Ping. Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2017, the Nomination Committee held two meetings to review the independence of the independent non-executive Directors, current structure of the Board, the Board diversity policy and make recommendations to the Board regarding the nomination of directors.

## CORPORATE GOVERNANCE REPORT

Full minutes of the Nomination Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Nomination Committee meetings were sent to all members of the Nomination Committee for comments and approval and all decisions of the Nomination Committee were reported to the Board subject to applicable restriction.

The terms of reference of the Nomination Committee are available on the website of the Company and of the Stock Exchange.

### Remuneration Committee

The Remuneration Committee was established on 11 June 2013, with specific written terms of reference for making recommendations to the Board regarding the Group's policy and structure for all remuneration of Directors and senior management and approving the remuneration package of the individual executive Directors. The Remuneration Committee comprises a total of three members, being one executive Director, namely, Mr. Yu Yifa, and two independent non-executive Directors, namely, Mr. Kwauk Teh Ming, Walter and Mr. Kang Choon Kiat (Chairman). Accordingly, a majority of the members are independent non-executive Directors.

During the year ended 31 December 2017, the Remuneration Committee held two meetings to review the remuneration package of Directors and senior management and submit proposals to the Board.

Full minutes of the Remuneration Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Remuneration Committee meetings were sent to all members of the Remuneration Committee for comments and approval and all decisions of the Remuneration Committee were reported to the Board subject to applicable restriction.

The terms of reference of the Remuneration Committee are available on the website of the Company and of the Stock Exchange.

### Investment Management Committee

The Investment Management Committee was established on 31 October 2012, with specific written terms of reference to help enhance the effectiveness of the Group's internal control and risk management procedures and to identify and manage the risks which the Group may be exposed to in handling foreign exchange and other investment transactions. The Investment Management Committee comprises a total of three members, all being independent non-executive Directors, namely, Mr. Kwauk Teh Ming, Walter, Mr. Kang Choon Kiat (Chairman) and Mr. Zong Ping.

During the year ended 31 December 2017, the Investment Management Committee held two meetings to review the current investment policy of the Group and review the investment performance report for the year.

Full minutes of the Investment Management Committee meetings are kept by the company secretary. Draft and final versions of the minutes of the Investment Management Committee meetings were sent to all members of the Investment Management Committee for comments and approval and all decisions of the Investment Management Committee were reported to the Board subject to applicable restriction.

The terms of reference of the Investment Management Committee are available on the website of the Company and of the Stock Exchange.

## CORPORATE GOVERNANCE FUNCTION

The Audit Committee has been appointed by the Board to perform the corporate governance function. The Company adopted code provision D.3.1 of the CG Code in performing its corporate governance functions. During the year ended 31 December 2017, the Company has performed the following duties in respect of its corporate governance functions:

1. to develop and review the Company's policies and practices on corporate governance;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
5. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The corporate governance policy is formulated with an emphasis on the Board's quality, effective control, stringent disclosure practices and transparency and accountability to all shareholders of the Company. The Board strives to comply with the code provisions and reviews its corporate governance policy regularly in order to maintain high standards of business ethics and corporate governance, and to ensure the full compliance of our operations with applicable laws and regulations.

## EXTERNAL AUDITOR'S REMUNERATION

The Company engaged Baker Tilly Hong Kong Limited as its external auditor for the year ended 31 December 2017. There was no disagreement between the Board and the Audit Committee on the selection, appointment, resignation or dismissal of the external auditor. During the year ended 31 December 2017, the fees payable to Baker Tilly Hong Kong Limited in respect of its audit and review of interim results services provided to the Company was approximately RMB1.53 million, including approximately RMB 17,500 was paid to Baker Tilly Hong Kong Advisory and Tax Limited for the provision of income tax services.

## SENIOR MANAGEMENT'S REMUNERATIONS

The Group's senior management's remunerations are determined by the Board with reference to their duties, responsibilities and performance and the results of the Group. Remuneration paid to a total of the four senior management (excluding Directors) by bands for the year ended 31 December 2017 is set out below:

Remuneration band	Number of individuals
RMB 1,000,000 and below	4

## CORPORATE GOVERNANCE REPORT

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year ended 31 December 2017, the Board, through the Audit Committee, conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues to the Board.

During the year ended 31 December 2017, the Group appointed Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and
- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

The results of the independent review and assessment were reported to the Audit Committee and the Board. Moreover, improvements in internal control and risk management measures as recommended by Baker Tilly to enhance the risk management and internal control systems of the Group and mitigate risks of the Group were adopted by the Board. Based on the findings and recommendations of Baker Tilly as well as the comments of the Audit Committee, the Board considered the internal control and risk management systems effective and adequate.

#### Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. The Group's risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversees risk management and internal audit functions.

## Principal Risks

For the year ended 31 December 2017, the following principal risks of the Group were identified and classified into strategic risks, operational risks, financial risks and compliance risks.

Risk Areas	Principal Risks
Strategic Risks	<b>No significant risk identified</b>
Operational Risks	<p data-bbox="544 648 1034 676"><b>Acquisition/Use of products without licence</b></p> <p data-bbox="544 728 1385 944">As the Group is mainly engaged in software development and distribution, which means that the Group has to use the software developed by third party suppliers. In case unlicensed software and/or software whose licence has expired is used by the Group due to whatever reasons, such as careless mistakes and clerical errors, the Group will be subject to claims for compensation by the software suppliers.</p> <p data-bbox="544 998 1385 1062">The Group's response to the risk identified through risk monitoring measures in the following way:—</p> <p data-bbox="544 1116 1385 1446">The Group is well aware of the risk, and it purchased from Microsoft Corporation the Windows Open Licence Program ("OLP") licences in 2017. Currently, for security reason, customers of the Group provide official licensed software to the Group for software development purposes, and the official licensed software is provided with the software product of the Group to the customers after software development of the software product has been completed. In addition, as the Group is also the supplier of the government agencies which provide official licensed software to the Group each year for facilitating its software development.</p>
Financial Risks	<b>No significant risk identified</b>
Compliance Risks	<b>No significant risk identified</b>

## CORPORATE GOVERNANCE REPORT

### Risk Control Mechanism

The Group adopts a “three lines of defence” corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by Baker Tilly. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management’s action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk owners have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

The Group’s risk management activities are performed by management on an ongoing process. The effectiveness of the Group’s risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensuring that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

Apart from the internal audit function of the Group, the Company will continue to engage external independent professionals to review the Group’s system of internal controls and risk management annually to further enhance the Group’s internal control and risk management systems as appropriate.

The Group has established internal control procedures for the handling and dissemination of inside information in order to comply with Chapter 13 of the Listing Rules as well as Part XIVA of the Securities and Futures Ordinance (“SFO”). The internal control mechanism includes information flow and reporting processes, confidentiality arrangements, disclosure procedures, and staff training arrangements, etc.

### DELEGATION BY THE BOARD

In general, the Board oversees the Company’s strategic development and determines the objectives, strategies and policies of the Group. The Board also monitors and controls operating and financial performance and sets appropriate policies for risk management in pursuit of the Group’s strategic objectives. The Board delegates the implementation of strategies and day-to-day operation of the Group to the management.

### COMPANY SECRETARY

Dr. Ngai Wai Fung (“Dr. Ngai”), the company secretary, is currently the director and chief executive officer of SW Corporate Services Group Limited, a corporate service provider. The primary corporate contact person at the Company is Mr. Yu Yifa, the executive Director. Dr. Ngai has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communications between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

### Shareholders to Convene an Extraordinary General Meeting

Pursuant to article 58 of the Articles of Association, extraordinary general meetings may be convened on the requisition of one or more shareholders of the Company holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the company secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the company secretary at the Company's principal place of business in Hong Kong.

### Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meeting

Shareholders of the Company are requested to follow article 58 of the Articles of Association for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above in the paragraph headed "Shareholders to Convene an Extraordinary General Meeting".

Pursuant to article 85 of the Articles of Association, no person (other than a retiring Director) shall be eligible for election to the office of Director at any general meeting unless a notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and a notice in writing signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office of the Company or at the Hong Kong branch share registrar and transfer office of the Company no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

The procedures for shareholders of the Company to propose a person for election as Director is posted on the website of the Company. Shareholders of the Company may refer to the above procedures for putting forward any other proposals at general meetings.



## CORPORATE GOVERNANCE REPORT

### Voting by Poll

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions to be set out in the notice of AGM will be voted by poll.

### INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- Delivery of annual and interim results and reports to all shareholders;
- Publication of announcements on the annual and interim results on the website of the Stock Exchange and of the Company, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- The general meeting of the Company is also an effective communication channel between the Board and shareholders.

### SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

During the reporting period, no amendment had been made to the constitutional documents of the Company.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This report is the environmental, social and governance (“ESG”) report (the “ESG Report”) of the Group, with content covering the Group’s ESG performance for the year ended 31 December 2017.

This ESG Report is prepared pursuant to the Environmental, Social and Governance Reporting Guide as set forth under Appendix 27 to the Listing Rules. This not only complies with regulator’s requirements on disclosure for listed companies, but also introduces the Company’s beliefs, work highlights and goals in ESG areas to its different stakeholders.

Through the preparation and disclosure of this ESG Report, the Company reviews relevant work flow systematically. The Company will then work together with different stakeholders to monitor and enhance its ESG standard continuously.

## ABOUT THE GROUP

The Company was incorporated in 1998 with its shares listed on the Main Board of the Stock Exchange on 9 July 2013. The Group is a leading provider of application software and solutions in China, with major businesses covering tax software and related services, low carbon & ecology software and related services and government big data software and related services.

The Group has over 15 years of experience in developing tax related software. It is the first mover in low carbon & ecology market, and also a renowned player in the provision of government big data platform in China. The Group’s R&D standard is widely recognized with the accreditation of “Key Software Enterprise under the National Plan” and CMMI Level 5, which possessed the highest maturity level under the CMMI accreditation system regarding the standard of product planning, software development, business consultation, managing and maintenance procedure.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE GOALS AND DIRECTIONS

Integrating ESG elements into business, to achieve sustainable development while striving for growth in results, is the megatrend of the world and also the Group’s direction of development.

As a leading developer in application software, the Group aims at exploiting innovative information technology to enhance the efficiency in using social resources, and in turn strengthen sustainable development.

Although operating in the industry of software and related services, which has lower impact on the environment, the Group spares no efforts in areas like managing energy usage and carbon emission. In addition to lowering its own energy consumption and emission level, the Group contributes to improve emission and pollution problems for different administrative levels and enterprises across the country through one of its major businesses, low carbon & ecology software and related services. This proves environmental, social development and the Group’s businesses are inseparable.

## Environmental, Social and Governance Report

Training and development of employees are one of the important elements in social sustainable development. As a software developer, having brilliant employees is also an important element for driving business growth. The Group is committed to personnel training so as to nurture employees, whilst at the same time, assist the Group to launch more software and solutions for improving the society and environment, so as to support the country's sustainable development.

### REPORTING PRINCIPLES

This ESG Report is prepared pursuant to the Environmental, Social and Governance Reporting Guide as set forth under Appendix 27 to the Listing Rules. The major reporting principles are:

#### Materiality

Issues related to environment, social and governance which are sufficiently important to investors and/or other stakeholders will be reported.

#### Quantitative

Key performance indicators are measurable, quantitative information should be accompanied by a narrative, explaining its purpose, impacts and giving comparative data where appropriate.

#### Balance

Provide an unbiased picture of the Group's performance, and avoid selections, omissions, or through presentation formats that may inappropriately influence a decision or judgement by the reader of this ESG Report.

#### Consistency

Use consistent methodologies to allow for meaningful comparisons of relevant data over time. Any changes to the methods used or any other relevant factors affecting a meaningful comparison will be disclosed.

The Company believes that this ESG Report enables the Company to communicate the Group's sustainability related matters in a transparent and accountable manner, which is key in gaining the trust of its stakeholders. The Group considers its business models, as well as internal and external communications, to assess and judge the materiality of the areas as stated in the Environmental, Social and Governance Reporting Guide set forth under Appendix 27 to the Listing Rules.

Results as follows:

		Materiality Matrix					
External Assessment (Impact on Stakeholder)	Crucial	5	<ul style="list-style-type: none"> <li>A Environmental – A1 Emissions</li> </ul>		<ul style="list-style-type: none"> <li>B Social – B1 Employment</li> </ul>		
		4	<ul style="list-style-type: none"> <li>A Environmental – A2 Use of Resources</li> </ul>		<ul style="list-style-type: none"> <li>B Social – B3 Development and Training</li> </ul>		
		3	<ul style="list-style-type: none"> <li>B Social – B7 Anti-corruption</li> <li>B Social – B8 Community Investment</li> </ul>		<ul style="list-style-type: none"> <li>B Social – B6 Product Responsibility</li> </ul>		
	Not Relevant	2	<ul style="list-style-type: none"> <li>A Environmental – A3 The Environment and Natural Resources</li> </ul>		<ul style="list-style-type: none"> <li>B Social – B2 Health and Safety</li> </ul>		
		1	<ul style="list-style-type: none"> <li>B Social – B5 Supply Chain Management</li> </ul>		<ul style="list-style-type: none"> <li>B Social – B4 Labour Standards</li> </ul>		
		0					
		0	1	2	3	4	5
		Not Relevant				Crucial	
		Internal Assessment (Impact on Business)					

Taking into account different stakeholders' judgement in materiality of target areas, this ESG Report will elaborate in four major themes, namely "Outstanding Team", "Product Responsibilities", "Green Operation" and "Social Responsibilities", respectively.

## OUTSTANDING TEAM

As a professional software developer, the Group provides innovative solutions to its customers. R&D is the main momentum for the Group's products and business development, while talents are the most important in R&D. Therefore, the Group always attaches great importance on its human resources management.

The Group strictly complies with the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》), the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), the "Regulations of Insurance for Employment Injury" (《工傷保險條例》) and other related laws and regulations to effectively protect employees' legal rights. During the year ended 31 December 2017, there was no non-compliance with the labour related laws and regulations by the Group, nor breach of regulations involving child and forced labour identified.

## Environmental, Social and Governance Report

The Group advocates “work with passion, live with joy” as its corporate culture, and creates good working environment for employees, so as to encourage them to devote to work and grow healthily with the Group. In order to establish an outstanding team, the Group holds “people oriented, pursue excellence” as its core value. Every employee has equal opportunities. The Group has also established multi-layered performance evaluation system and salary system, and provides appropriate training programs, thus, to create the platform for employees to achieve their ambitions and career goals.

### Recruitment

The Group adopts fair and stringent recruitment process. Managing recruitment in a standardized manner ensure talents can be efficiently and properly selected. In general, the Group will first attempt internal selection and promotion of outstanding employees who can meet the requirements of the recruiting posts, then consider open recruitment. The Company adopted a transparent system for assessing staff performance. At the end of each year, the Company will appraise the performance of all employees, and together with the assessment results and employees’ personal desire to adjust their job nature and pay arrangement as appropriate.

In open recruitments, recruitment committee will be formed by the Group’s human resources department, head of the recruitment department, other management of the Group and even external experts, to work together and select the most suitable candidate.

### Team Structure

The Group respects gender equality and adopts identical standard, structure and methodologies in calculating salary for both male and female employees. The Group will review employees’ working ability through objective and standardized benchmarks in staff evaluation and promotion. Personal factors such as gender, age and role in family will not be considered.

Breakdown for total number of the Group's employees as at 31 December 2017, and the comparative figures for 2016, as follows:

*Breakdown for number of employees by gender and grade*

As at 31 December 2017

	Male	Female	Total
Management	10 (83%)	2 (17%)	12
Department Head	53 (85%)	9 (15%)	62
Other Staff	494 (80%)	125 (20%)	619
<b>Total</b>	<b>557 (80%)</b>	<b>136 (20%)</b>	<b>693</b>

As at 31 December 2016

	Male	Female	Total
Management	9 (82%)	2 (18%)	11
Department Head	52 (87%)	8 (13%)	60
Other Staff	442 (78%)	122 (22%)	564
<b>Total</b>	<b>503 (79%)</b>	<b>132 (21%)</b>	<b>635</b>

*Breakdown for number of employees by age and grade*

As at 31 December 2017

	30 or below	31-40	41-50	51-60	Over 60	Total
Management	0	1	10	1	0	12
Department Head	1	29	24	8	0	62
Other Staff	443	154	18	2	2	619
<b>Total</b>	<b>444</b>	<b>184</b>	<b>52</b>	<b>11</b>	<b>2</b>	<b>693</b>

## Environmental, Social and Governance Report

As at 31 December 2016

	30 or below	31-40	41-50	51-60	Over 60	Total
Management	0	1	7	3	0	11
Department Head	1	52	2	5	0	60
Other Staff	426	117	14	6	1	564
<b>Total</b>	<b>427</b>	<b>170</b>	<b>23</b>	<b>14</b>	<b>1</b>	<b>635</b>

### Personnel Training

Talents are the most important asset for the Group. The Group cares about the growth of each employee and believes that is the most solid foundation for corporate development. As such, the Group provides targeted and systematic training for employees, to help them explore their potential and support for the Group's sustainable growth.

For the year ended 31 December 2017, employees of different grades participated 3,896 times (2016: 4,997) of internal and external training, with aggregated 17,529 training hours (2016: 15,313). The decrease in number of times that employees participated in training but increase in training hours shows the Group's strategy of concentrating resources to provide more precise and in-depth training for its employees. Areas of training include organizational strategy and corporate culture, basic skills, business knowledge, new staff orientation, position transfer, promotion, R&D, sales, management and other training programs for enhancing integrated ability of specific posts.

### High Quality Working Environment

The Group strictly complies with all labour related regulations in the country and contributes "five insurances" (namely retirement, medical, unemployment, work injury and maternity) and "one fund" (housing fund), as well as insurance for "serious illness" for each of its employees.

The Group provides competitive salary and welfare system for its employees. On top of salary, performance-based rewards and year-end bonus, the Group has adopted a share award scheme to award its outstanding employees and encourage them for further contribution for the Group's development. In addition, the Group also adopts policies that are attractive to talents, such as training subsidies, paid leave, free health checks, staff dormitory, free shuttle bus and transportation subsidies.

The Group also attaches great importance to the health of its employees and is committed to provide a healthy, safe and protected working environment for them. Relevant measures include regular cleaning for central air-conditioning system, installation of filters and regular cleaning for drinking water equipment, and arranging comprehensive free health checks for employees every two years. Further, different safety-related initiatives and measures have been rolled out in the Group's operations. Risk assessments are also conducted to identify risks in special working environments. During the year ended 31 December 2017, no work-related fatalities were recorded, and there were no confirmed material non-compliance incident or grievance in relation to human rights and labour practices.

## PRODUCT RESPONSIBILITIES

The Group is committed to promote innovative development. Through understanding the unique demand of each segmental market and combining with advanced information technology, the Group provides efficient and reliable software and solutions for its customers.

To ensure products are stable and reliable, the Group's every new product needs to go through stringent process control and testing procedures. As a corporate recognized as CMMI Level 5, the highest level under the CMMI system, the Group has achieved the most mature standard, "enhanced management", in product planning, software development, business consultation, and program managing and maintenance. The Group's products fulfill the requirements of CMMI Level 5, which include quantitative feedback mechanism in development process for applying new technologies and optimizing relevant process, continuous and measureable improvement in process, such as defect prevention, technical update management and process management.

During the year ended 31 December 2017, no complaint has been received by the Group in relation to its product quality.

### Customer Relations

The Group holds "customer-oriented" as its marketing philosophy, to listen carefully to customers' needs and offer them the most suitable product and service, so as to enhance their using experience. The Group has established different platforms for customer feedbacks, including call center and customer relations management system. Through hotline, instant messaging and email communications, the Group strives to provide timely respond to customers' questions, needs and complaints. The Group also conducts satisfaction survey regularly through the customer relations management system, to ensure customers' demands are met and help maintain good relationships with them.

The Group formulated "Customers' File Management Approach", which provides clear guidance for different departments to manage customers' information and perform follow up work. In addition, the Group also formulated "Staff Performance Evaluation Management Approach", to assess service engineers' attitude, response time, technical standards, etc. Both clear guidance and evaluation help improve customers' satisfaction and enhance corporate competitiveness.

The Group is committed to protect customers' privacy. The Group has passed ISO 27001 Information Security Certification, established information security protection system and formulated "Information Security Management Strategy", to implement grading protection for customers' privacy, trade secret and national secret, thus, to ensure the confidentiality, completeness and usability of relevant information.



## Environmental, Social and Governance Report

### Supplier Management

The Group maintains principles of fairness, openness and impartiality to suppliers, and formulated “Suppliers Management Rules” to evaluate and monitor suppliers’ performance systematically, as well as enhance supplier management. This can achieve not only a win-win situation for the Group and its suppliers, but also ensure products quality and protect customers’ interest. For the year ended 31 December 2017, the Group was not aware that any key suppliers had any significant actual and potential negative impact on business ethics, environmental protection, human rights and labour practices.

### Intellectual Property

The Group has applied for “Software Certificate” (《軟件產品著作權》) for its developed products, intellectual property of the Group’s products is protected through the “Copyright Law of the People’s Republic of China” (《中華人民共和國著作權法》). For the year ended 31 December 2017, the Group successfully developed 63 new products and obtained “Software Certificate”, including 13 tax-related products, 13 low carbon & ecology-related products and 37 government big data-related products.

## GREEN OPERATION

As a service-oriented enterprise, the Group’s daily operation has relatively minimal impact to the environment. The businesses of the Group did not involve in waste gas emission, water consumption, packaging materials or hazardous waste treatment or disposal which are regulated under national laws and regulations. Yet, the Group is still committed to energy saving in different parts of its working environment, to reduce emission, contribute for environmental protection and minimize the impact to climate change. The Group strictly complies with environmental laws and regulations such as the “Environmental Protection Law of the People’s Republic of China” (《中華人民共和國環境保護法》), the “Atmospheric Pollution Prevention Law of the People’s Republic of China” (《中華人民共和國大氣污染防治法》), to accomplish its responsibilities for the environment proactively, and endeavor to achieve better environmental performance. For the year ended 31 December 2017, there was no incident of non-compliance with relevant environmental laws and regulations in the Group.

The Group promotes green operation, regulates energy usage, and cultivates the habit of energy saving in working environment among its employees. The Group adopts different measures for energy saving, including sensor-switched lights during non-office hours, preset off for air-conditioning system after office hours and fixed hours operation of water heater system in staff dormitory. The Group will constantly review energy consumption performance of different equipment and replace the old equipment which are high energy consuming, so as to increase energy efficiency. The Group generated no hazardous waste in its operation. Non-hazardous waste from the Group’s operation were mainly office paper. The Group adopts paper saving practices, such as encouraging employees to use duplex printing to minimize paper consumption. Envelopes are also reused for internal mails. The Group’s office waste is disposed by property management company in accordance with local environmental requirements.

Outside office, the Group encourages its employees for low carbon travelling, includes providing shuttle buses to pick up employees from different locations to work and back home in order to reduce their needs for driving to the company, providing regular shuttle buses within office hours for employees who have to work outside. For employees who need to work in other cities or provinces, the Group encourages them to use high-speed train instead of airplane, which produces approximately 5 times of carbon emission per traveler per kilometer than that of high-speed train, to lower carbon footprint comprehensively.

One of the Group's major businesses is low carbon & ecology software and related services, which products help different administrative levels and enterprises to monitor and analyze their carbon emission, in order to enhance relevant policies and lower emission level. The Group applies relevant professional knowledge in monitoring its own energy consumption and calculating equivalent carbon emission level.

For the year ended 31 December 2017, statistics for energy consumption and carbon emission, and comparative figures for the year 2016, are as follows:

**For the year ended 31 December 2017**

Energy	Usage	Equivalent Carbon Emission
Diesel	4,353.91 kg	18.71 tons
Petrol	15,564.70 kg	74.72 tons
Liquefied Natural Gas	5,310.00 kg	15.85 tons
Electricity	1,200,827.49 kWh	<u>1,004.73 tons</u>
Total		<u>1,114.01 tons</u>

**For the year ended 31 December 2016**

Energy	Usage	Equivalent Carbon Emission
Diesel	4,046.74 kg	17.42 tons
Petrol	16,705.20 kg	80.20 tons
Liquefied Natural Gas	5,120.00 kg	15.04 tons
Electricity	1,134,300.11 kWh	<u>936.12 tons</u>
Total		<u>1,048.78 tons</u>

The most important component supporting the Group's business is human resources, thus, carbon intensity is calculated based on the number of employees. For the year ended 31 December 2017, carbon emission per employee was approximately 1.61 tons, representing a decrease of approximately 2.4% when compared with approximately 1.65 tons for the same period in 2016, which demonstrated the Group's achievement in green operations.

## Environmental, Social and Governance Report

In respect of water resources, for the year ended 31 December 2017, the recorded water usage is 19,687.00 tons (2016: 25,663.44 tons.)

In addition to the Group's own green operation, through its low carbon & ecology software and related services, the Group helps enhance emission and pollution problems for different administrative levels and enterprises across the country, which also means a contribution to the macro goal of sustainable development indirectly.

### SOCIAL RESPONSIBILITIES

Besides the development in software industry, the Group also attaches great importance to its social role. The Group is committed to perform clean and high-standard governance, as well as contribute to the society in various ways.

#### Anti-corruption

The Group has always adhered to impartiality and integrity against all corruption. The Group has formulated the "Anti-Fraud Management Regulations", clearly stating the purpose of anti-fraud, as well as the concept, form, report, investigation, punishment and follow-up measures of fraud. This regulates the entire Group and also its business partners, to strictly abide by relevant laws and regulations, professional ethics, as well as the company rules and regulations, so as to establish the clean and diligent working atmosphere, and prevent any damage to the interests of the Group and its shareholders.

Other than the work of anti-fraud by different departments, the Group has also set up an anti-fraud permanent department, to do cross-departmental and supplementary work for anti-fraud. The Group's Audit Committee is responsible for overseeing the Group's anti-fraud policies, as well as having regular discussions with external and internal auditors regarding the fraud risk assessments.

The Group's management integrates supervision of fraud into day-to-day management. Relevant anti-corruption efforts include continuous communication and training for employees through staff handbook, publicity or intranet, to ensure employees understand anti-corruption related laws and regulations, code of conduct, as well as the concept involved, so as to prevent corruption. In addition, communication channels such as hotline and e-mail were also established for reporting corruption.

For the year ended 31 December 2017, the Group has not received or found any reports and incidents relating to corruption.

#### Community Investment

The Group has been actively contributing to the community and participating in different public welfare activities. For the year ended 31 December 2017, the Group donated RMB 200,000 for supporting the development in poverty areas.

# DIRECTORS' REPORT

The Directors are pleased to present to the shareholders this annual report and the audited consolidated financial statements for the year ended 31 December 2017.

## GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands Cap.22 (Law 3 of 1961, as consolidated and revised) (the "Companies Law") as an exempted company with limited liability on 6 January 2011. Pursuant to the reorganization arrangements undertaken by the Group in preparation for the listing of the Shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 20 January 2011. For details of the group reorganization, please refer to the section headed "History, Reorganisation and Group Structure" in the prospectus of the Company dated 27 June 2013.

The Shares have been listed on the Main Board of the Stock Exchange since 9 July 2013.

## PRINCIPAL ACTIVITIES

The principal activities of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 35 to the consolidated financial statements.

## BUSINESS REVIEW

Discussion and analysis on business of the Group is set out in the section headed "Management Discussion and Analysis" on pages 9 to 15. Likely future development in the Group's business is discussed in the paragraph headed "Outlook" in the "Chairlady Statement" section on pages 6 to 8 of this annual report.

## ENVIRONMENTAL POLICIES

The Group is committed to the long-term sustainability of the environment and communities. As a pioneer in the low carbon & ecology software industry, the Group has professional knowledge in efficient use of resources. Energy saving measures have been adopted in the Group's daily operation, including sensor-switched lights during non-office hours, fixed hours operation of water heater system in staff dormitory.

## COMPLIANCE WITH LAWS AND REGULATIONS

The Group complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2017, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group considers R&D as one of the keys to its success. The Group's business may be affected if (i) it is unable to successfully implement its R&D projects, or (ii) it is unable to hire or retain qualified personnel for its R&D efforts. In addition, as the Group is mainly engaged in software development and distribution which the Group requires to use software developed by third party suppliers, there may be operational risk to the Group in the case of unlicensed software and/or software whose license has expired.

## DIRECTORS' REPORT

Further, the Group's businesses are all located in the PRC and are therefore subject to inherent uncertainties of the PRC's economic, political and social conditions.

The Group is exposed to credit risks associated with its customers and its outstanding trade receivables. The turnover days of the Group's trade receivables have remained at a relatively high level during the year under review.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group considered its staffs as valuable assets for the Group's continuous development. Thus, it offers competitive salary packages, as well as discretionary bonuses and contributions to social insurance to its employees. In order to ensure that the Group's employees remain competitive in the industry, the Group has adopted training programs for its employees which are managed by its human resources department. The Company has also adopted a share option scheme and share award scheme to recognise and motivate contributions of its employees. Further details regarding the share option scheme and share award scheme is set out in the paragraphs headed "Share Option Scheme" and "Share Award Scheme" on pages 52 to 54 of this annual report.

The Group provides high quality software products and services to its customers from both private sector and public sector, to fulfil their immediate and long-term needs. The Group also communicates with its customers regularly to maintain close relationship with them.

The Group strives to maintain fair and cooperative relationships with its suppliers.

## PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance covering Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance") when this annual report prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the financial position of the Company and of the Group at that date are set out in the consolidated financial statements on pages 62 to 120.

The Board has recommended the payment of a final dividend of RMB 2.78 cents per Share for the year ended 31 December 2017 (2016: RMB 2.33 cents per Share), subject to the approval of the shareholders at the AGM. Further details regarding the payment of final dividend for the year ended 31 December 2017 is set out in the paragraph headed "Final Dividend" on page 15 of this annual report.

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

**CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining the shareholders' rights to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 7 June 2018 to Tuesday, 12 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 6 June 2018.

For the purposes of determining the shareholders' entitlement to the proposed final dividend for the year ended 31 December 2017, the register of members of the Company will be closed from Wednesday, 20 June 2018 to Thursday, 21 June 2018, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible for the above proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 19 June 2018.

**FINANCIAL SUMMARY**

A summary of the published results and of the assets, equity and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

**SHARE CAPITAL**

Details of the movement in share capital of the Company are set out in note 26 to the consolidated financial statements.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

**PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

**RESERVES**

The movement in the reserves of the Group during the year are set out in the consolidated statement of changes in equity of this annual report.

## DIRECTORS' REPORT

### DISTRIBUTABLE RESERVES

The Company's reserves available for distribution comprise share premium and accumulated losses. As at 31 December 2017, the Company's reserve available for distribution to owners was approximately RMB 286.9 million. Under the Companies Law, the Company's share premium account may be applied by the Company in paying distributions or dividend to shareholders of the Company provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay off its debts as they fall due in the ordinary course of business.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2017 amounted to RMB 200,000.

### MAJOR SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2017, the 5 largest customers of the Group accounted for 28% of the total revenue, while the largest customer accounted for 10% of the total revenue.

For the year ended 31 December 2017, the 5 largest suppliers of the Group accounted for 60% of the total purchases, while the largest supplier accounted for 17% of the total purchases.

At all time during the year ended 31 December 2017, none of the Directors or any of their close associates or any shareholders of the Company who, to the knowledge of the Directors, own more than 5% of number of issued shares of the Company had an interest in any of the five largest suppliers or customers.

## DIRECTORS

The Directors in office at the date of this annual report are:

### Executive Directors

Ms. Xin Yingmei (*Chairlady*)

Mr. Yu Yifa

### Non-executive Director

Mr. Hu Xiaoming, Simon

### Independent non-executive Directors

Mr. Kang Choon Kiat

Mr. Kwauk Teh Ming, Walter

Mr. Zong Ping

Pursuant to the Articles of Association, every Director shall retire from office once every three years and for this purpose, at each annual general meeting, one-third (1/3) of the Directors for the time being, or, if their number is not a multiple of three (3), then the number nearest to but not less than one-third (1/3) shall retire from office by rotation. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and so that as between persons who became or was last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. Subject to the Articles of Association, a retiring Director shall be eligible for re-election at the meeting at which he retires. For the avoidance of doubt, each Director shall retire at least once every three (3) years. Further, any new director appointed by the Board to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after his/her appointment and any new director appointed by the Board as an addition to the Board shall submit himself/herself for re-election by shareholders at the next annual general meeting.

In accordance with Article 84 of the Articles of Association, Ms. Xin Yingmei, an executive Director and Mr. Kwauk Teh Ming, Walter, an independent non-executive Director, shall retire and being eligible, have offered themselves for re-election at the Company's forthcoming AGM.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 16 to 19 of this annual report.

### DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has respectively entered into a service contract commencing on 9 July 2016 with the Company for a term of three years unless terminated by not less than one months' notice in writing served by either party on the other.

The non-executive Director and each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing on 1 January 2017 and 31 October 2015, respectively, unless terminated by not less than one months' notice in writing served by either party on the other.

None of the Directors of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, interests or short positions in the Shares of the Company, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) held by the Directors and chief executive of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been recorded in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code are as follows:

Name of Director	Personal Interest	Corporate interests	Interest of spouse	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of the Company
Ms. Xin Yingmei	—	494,912,400 (L) (Note 2)	78,777,000 (L) (Note 3)	573,689,400 (L)	46.31%
Mr. Yu Yifa	1,170,000 (L)	—	—	1,170,000 (L)	0.09%

Notes:

- (1) The letter "L" denotes the person's long position in such securities.
- (2) These Shares are held by Long Capital International Limited which is beneficially and wholly-owned by Ms. Xin Yingmei.
- (3) These Shares are held by Telewise Group Limited which is beneficially and wholly-owned by Mr. Wang Xiaogang, the spouse of Ms. Xin Yingmei.
- (4) On 28 July 2016, the Board announced a bonus issue on the basis of one (1) Bonus Share for every five (5) existing Shares held by the Qualifying Shareholders (as defined in the Company's announcement dated 28 July 2016) whose names appear on the register of members of the Company on the then record date. The number of Shares herein is as adjusted by the allotment of Bonus Shares of the Company on 19 September 2016.

Save as disclosed above, none of the Directors or chief executive of the Company and/or any of their respective associates had registered any interests or short positions in any Shares and underlying Shares in, and debentures of, the Company or any associated corporations as at 31 December 2017, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code.

**SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITION IN SHARES**

As at 31 December 2017, the persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Capacity	Number of Shares held (Note 1)	Approximate percentage of the issued share capital of our Company
Long Capital International Limited	Beneficial owner	494,912,400 (L) (Note 2)	39.95%
Telewise Group Limited	Beneficial owner	78,777,000 (L) (Note 3)	6.36%
Wang Xiaogang	Interest of a controlled corporation	78,777,000 (L) (Note 3)	6.36%
Alibaba.com Investment Holding Limited	Beneficial owner	165,000,000 (L) (Note 4)	13.32%
Alibaba.com Limited	Interest of a controlled corporation	165,000,000 (L) (Note 4)	13.32%
Alibaba Group Holding Limited	Interest of a controlled corporation	165,000,000 (L) (Note 4)	13.32%
FIL Limited	Interest of a controlled corporation	98,478,400 (L)	7.95%

Notes:

- (1) The letter "L" denotes the person's or entity's long position in such securities.
- (2) These Shares are held by Long Capital International Limited which is beneficially and wholly-owned by Ms. Xin Yingmei.
- (3) These Shares are held by Telewise Group Limited which is beneficially and wholly-owned by Mr. Wang Xiaogang, the spouse of Ms. Xin Yingmei.
- (4) Alibaba.com Investment Holding Limited is wholly owned by Alibaba.com Limited which is a subsidiary of Alibaba Group Holding Limited.
- (5) On 28 July 2016, the Board announced a bonus issue on the basis of one (1) Bonus Share for every five (5) existing Shares held by the Qualifying Shareholders (as defined in the Company's announcement dated 28 July 2016) whose names appear on the register of members of the Company on the then record date. The number of Shares herein is as adjusted by the allotment of Bonus Shares of the Company on 19 September 2016.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance subsisting as of 31 December 2017 or at any time during the year ended 31 December 2017 to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with him/her is or was materially interested, either directly or indirectly, exist.

### CONTRACT OF SIGNIFICANCE

Saved as disclosed in this annual report, no contract of significance has been made between the Company or any one of its subsidiaries and a controlling shareholder or its subsidiaries during the year ended 31 December 2017 or as at the date of this annual report.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the section headed "Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures" on page 48 of this annual report and "Share Option Scheme" and "Share Award Scheme" on pages 52 to 54 of this annual report, at no time during the reporting period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective associates nor was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective associates to acquire such rights in any other body corporate.

### DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at 31 December 2017, the Directors were not aware of any business or interest of the Directors and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

### DEED OF NON-COMPETITION

The Company has received, from each of the controlling shareholders of the Company, an annual declaration on his/her/its compliance with the undertakings contained in the deed of non-competition (the "Deed of Non-Competition") entered into by each of them in favour of the Company pursuant to which each of the controlling shareholders of the Company has undertaken to the Company that he/she/it will not and will procure that his/her/its associates (other than members of the Group) not to directly or indirectly be involved in or undertake any business that directly or indirectly competes with our business or undertaking, or hold shares or interest in any companies or business that compete directly or indirectly with our business except where the controlling shareholders of the Company hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of the Group and they do not control 10% or more of the composition of the board of directors of such company.

Details of the Deed of Non-Competition were disclosed in the prospectus of the Company dated 27 June 2013 under the section headed "Relationship with Our Controlling Shareholders".

For the year ended 31 December 2017, the Company has received an annual written confirmation from each of the Company's controlling shareholders in respect of their and their associates' compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed and were satisfied that each of the controlling shareholders of the Company has complied with the Deed of Non-Competition for the year ended 31 December 2017.

### REMUNERATION OF DIRECTORS

In compliance with the CG Code as set out in Appendix 14 to the Listing Rules, the Company has established Remuneration Committee to formulate remuneration policies. Directors' remuneration are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties and responsibilities, the recommendations of the Remuneration Committee and the performance and results of the Group. Details of the remuneration of the Company's Directors are set out in Note 11 to the consolidated financial statements of this annual report.

During the year ended 31 December 2017, none of the directors of the Company waived his/her emoluments nor has agreed to waive his/her emoluments for the year.

### REVIEW OF THE ANNUAL RESULTS

The Audit Committee has reviewed the audited consolidated financial statements for the year ended 31 December 2017 in conjunction with the Company's external and internal auditors.

The Audit Committee has been established in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The Audit Committee consists of three independent non-executive Directors: Mr. Kang Choon Kiat, Mr. Kwauk Teh Ming, Walter and Mr. Zong Ping. Mr. Kwauk Teh Ming, Walter serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company and to assist the Board to fulfil its responsibilities over audit.

### PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the period ended 31 December 2017 and as at the latest practicable date before printing this annual report.

## DIRECTORS' REPORT

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors confirmation of independence, and the Company considers that each of them to be independent and has met the guidelines set out in Rule 3.13 of the Listing Rules.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. All Directors of the Company have confirmed that, following specific enquiry by the Company, they have complied with the required standard set out in the Model Code during the year ended 31 December 2017.

### SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 11 June 2013. As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 100,000,000 Shares, which represented 8.1% of the Shares in issue.

The following is a summary of the principal terms of the Share Option Scheme:

#### 1. Purpose of the Share Option Scheme:

The Share Option Scheme is established to recognize and acknowledge the contributions the Eligible Participants under the Share Option Scheme (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants under the Share Option Scheme an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants under the Share Option Scheme to optimize their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants under the Share Option Scheme whose contributions are or will be beneficial to the long-term growth of the Group.

#### 2. Participants of the Share Option Scheme:

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Eligible Participants under the Share Option Scheme" or each of whom, the "Eligible Participant under the Share Option Scheme") to subscribe for such number of new Shares as the Board may determine:

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

**3. Total number of Shares available for issue under the Share Option Scheme and percentage of issued shares as at the date of this annual report:**

As at the date of this annual report, no share option has been granted under the Share Option Scheme.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not in aggregate exceed 100,000,000 Shares.

**4. Maximum entitlement of each participant under the Share Option Scheme:**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant under the Share Option Scheme in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by the Company containing the identity of the Eligible Participant under the Share Option Scheme, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant under the Share Option Scheme and his/her associates (as defined in the Listing Rules) abstaining from voting.

**5. The period within which the Shares must be exercised under the Share Option Scheme:**

An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Share Option Scheme.

**6. The minimum period for which an option must be held before it can be exercised:**

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.

**7. The basis of determining the exercise price:**

Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary Shares as stated in the Stock Exchange daily quotation sheets on the date of grant of options, which must be a trading day; (ii) the average closing price of the ordinary Shares as stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary Share.

## DIRECTORS' REPORT

### 8. The remaining life of the Share Option Scheme:

It will remain in force for a period of 10 years. Since the adoption of the Share Option Scheme, no options had been granted under the Share Option Scheme.

During the year ended 31 December 2017, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

### SHARE AWARD SCHEME

A share award scheme was adopted by the Board on 13 December 2016 (the "Share Award Scheme") to:

- (i) recognise and motivate the contributions by any employee of the Group and non-executive director of the Company and/or any member of the Group (excluding any employee of the Group and non-executive director of any member of the Group who has tendered his/her resignation or who has been given a notice of dismissal by the Company and/or the relevant member of the Group) who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any member of the Group (the "Eligible Participants under the Share Award Scheme") and to give incentives thereto in order to retain them for the continual operation and development of the Group;
- (ii) attract suitable personnel for further development of the Group; and
- (iii) provide certain Eligible Participants under the Share Award Scheme with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Participants under the Share Award Scheme.

The Share Award Scheme shall be valid and effective for a term of ten years commencing on the date of adoption. Pursuant to the Share Award Scheme, shares will be acquired by the independent trustee at the cost of the Company from the open market or subscribe for the relevant number of Shares awarded and shall hold such Shares until they are vested in accordance with the rules of the Share Award Scheme. Vested shares will be transferred to the selected participants at nil consideration. The Board shall not make any further grant of award of Shares under the Share Award Scheme such that the total number of Shares granted under the Share Award Scheme will exceed 5% of the total number of issued Shares as of the date of adoption of the Share Award Scheme. If the relevant subscription or purchase would result in the independent trustee holding in aggregate, more than 5% of the total number of issued shares of the Company as of the date of the adoption of the Share Award Scheme, the independent trustee shall not subscribe or purchase any further Shares. Details of the rules of the Share Award Scheme are set out in the announcement of the Company dated 13 December 2016.

On 13 December 2016 and 12 June 2017, the Board has further resolved that a sum of up to HKD 40 million and HKD 50 million be provided for the purchase of Shares to be awarded to the participants to be selected by the Board respectively. Details of the further share purchase under the Share Award Scheme are set out in the announcements of the Company dated 13 December 2016 and 12 June 2017.

No shares was awarded under the Share Award Scheme during the year under review.

## CONNECTED TRANSACTIONS

There were no transactions that constitute connected transactions as defined in Chapter 14A of the Listing Rules that require disclosure in this annual report for the year ended 31 December 2017.

## MANAGEMENT CONTRACT

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## AUDITORS

On 17 February 2017, Deloitte Touche Tohmatsu has resigned as auditor of the Company. The Board has appointed Baker Tilly Hong Kong Limited as the new auditor of the Company to fill the vacancy immediately following the resignation of Deloitte Touche Tohmatsu. Save as disclosed above, there were no other change in auditor of the Company during the past three years. Baker Tilly Hong Kong Limited will retire at the conclusion of the forthcoming AGM of the Company and be eligible to offer themselves for re-appointment. A resolution will be submitted to the AGM to seek Shareholders' approval on the re-appointment of Baker Tilly Hong Kong Limited as the Company's auditor until the conclusion of the next annual general meeting and to authorise the Board to fix their remuneration.

By order of the Board

**Xin Yingmei**

*Chairlady*

Hong Kong, 26 March 2018



# Independent Auditor's Report



TO THE MEMBERS OF  
**SINOSOFT TECHNOLOGY GROUP LIMITED**  
中國擎天軟件科技集團有限公司  
*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Sinosoft Technology Group Limited (the “Company”) and its subsidiaries (collectively referred to as, the “Group”) set out on pages 62 to 120, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Key Audit Matter**

**How our audit addressed the Key Audit Matter**

**Revenue recognition**

Refer to Note 3 (significant accounting policies) and Note 6 (revenue and segmental information) to the consolidated financial statements.

The Group recognises revenue when the services are rendered and the goods are delivered and title has been passed to customers for sales of goods. We focused on this area due to large volume of revenue transactions generated from various government units and customers, and thus significant time and resources were devoted in this area, in particular relating to the occurrence, accuracy and proper recording period of such transactions.

Our audit procedures included:

- assessing the appropriateness of the Group's accounting policies for revenue recognition and assessing the compliance of those policies with IFRSs;
- testing on a sample basis the effectiveness of the Group's internal controls and the correct timing of the Group's recognition of revenue in accordance with contract terms; and
- assessing the results of the cut-off testing on sales transactions recorded immediately before and after the year-end to ensure that revenue was recognised in the correct period and assessing the accuracy of the recorded sales transactions.

We found the revenue recorded to be supported by the available audit evidence.

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### Impairment of trade receivables

Refer to Note 4 (key sources of estimation uncertainty) and Note 21 (trade and other receivables) to the consolidated financial statements for the related disclosures.

As at 31 December 2017, gross trade receivables of the Group amounted to approximately RMB 805 million (2016: RMB 557 million), which accounted for approximately 58% (2016: 45%) of the Group's total assets. The provision for impairment of trade receivables amounted to RMB 5.5 million (2016: RMB 5.5 million), all of which was attributable to customers located in China. Management performed periodic credit monitoring, which included the review of customers' credit worthiness, collection of outstanding balances and individual credit terms. If there is an indicator that the receivables are impaired, management would make specific provision against individual balances with reference to the recoverable amount.

We focused on this area due to the size of the receivables and the estimations and judgements involved in the determination of the recoverable amounts of trade receivables.

Our audit procedures included:

- understanding and validating the credit control procedures performed by management, including its procedures on periodic review on aged receivables and assessment on recoverability of these receivables;
- testing on a sample basis, the accuracy of ageing profile on trade receivables by checking to the underlying sales invoices, sales contracts and document on date of delivery of goods or rendering of services to customers which approximated the respective dates on which revenue was recognised; and
- testing subsequent settlement of trade receivable balances. Where settlement had not been received subsequent to the year end for those unprovided aged receivables beyond the credit period as at year end, we obtained management's assessments of the recoverability of those debts and corroborated management explanations with the historical settlement pattern.

We found the estimations and judgements made by management in respect of the collectability of receivables were consistent with the available evidence.

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

The directors are responsible for the other information. The other information comprises the information in the annual report, other than the consolidated financial statements and our auditor's report thereon (the "other information").

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Independent Auditor's Report

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

2nd Floor, 625 King's Road, North Point

Hong Kong, 26 March 2018

**Choi Kwong Yu**

Practicing certificate number P05071

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	6	601,018	518,937
Value-added tax refund	7	12,254	16,987
Cost of sales		(232,268)	(194,295)
Research and development costs		(45,301)	(62,217)
Other income and gains	8	11,893	10,311
Distribution and selling expenses		(47,317)	(29,415)
Administrative and general expenses		(45,787)	(38,536)
Other expenses and losses	9	(2,178)	(468)
Profit before taxation	10	252,314	221,304
Taxation	12	(22,632)	(29,912)
Profit and total comprehensive income for the year		<u>229,682</u>	<u>191,392</u>
		2017 RMB cents	2016 RMB cents
Earnings per share — basic and diluted	13	<u>18.54</u>	<u>15.45</u>

# Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	102,713	107,335
Lease prepayment for land use rights	16	14,308	14,714
Intangible assets	17	223,039	200,650
Available-for-sale investments	18	2,000	2,000
		<u>342,060</u>	<u>324,699</u>
<b>CURRENT ASSETS</b>			
Inventories	20	1,983	12,796
Trade and other receivables	21	813,936	607,243
Pledged bank deposits	22	—	18,207
Bank balances and cash	23	240,296	277,415
		<u>1,056,215</u>	<u>915,661</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	24	79,396	80,289
Other payables	25	79,645	65,943
Tax liabilities		16,673	15,553
		<u>175,714</u>	<u>161,785</u>
<b>NET CURRENT ASSETS</b>		<u>880,501</u>	<u>753,876</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,222,561</u>	<u>1,078,575</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	19	41,634	43,277
<b>NET ASSETS</b>		<u>1,180,927</u>	<u>1,035,298</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	26	10,009	10,009
Reserves	27	1,170,918	1,025,289
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<u>1,180,927</u>	<u>1,035,298</u>

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2018 and are signed on its behalf by:

Xin Yingmei  
DIRECTOR

Yu Yifa  
DIRECTOR



# Consolidated Statement of Changes in Equity

At 31 December 2017

	Equity attributable to owners of the Company						
	Share capital	PRC statutory reserve	Capital reserve	Share premium	Share held under	Accumulated profits	Total
					share award scheme		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	8,232	86,200	2,627	299,788	—	483,495	880,342
Profit and total comprehensive income for the year	—	—	—	—	—	191,392	191,392
Dividend (note 14)	—	—	—	—	—	(24,181)	(24,181)
Issue of shares (note 26(b))	1,777	—	—	(1,777)	—	—	—
Purchase of shares under share award scheme (note 30(b))	—	—	—	—	(12,255)	—	(12,255)
Transfer	—	20,290	—	—	—	(20,290)	—
At 31 December 2016 and 1 January 2017	10,009	106,490	2,627	298,011	(12,255)	630,416	1,035,298
Profit and total comprehensive income for the year	—	—	—	—	—	229,682	229,682
Dividend (note 14)	—	—	—	—	—	(28,862)	(28,862)
Purchase of shares under share award scheme (note 30(b))	—	—	—	—	(55,191)	—	(55,191)
Transfer	—	19,951	—	—	—	(19,951)	—
At 31 December 2017	<u>10,009</u>	<u>126,441</u>	<u>2,627</u>	<u>298,011</u>	<u>(67,446)</u>	<u>811,285</u>	<u>1,180,927</u>

# Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
<b>Operating activities</b>		
Profit before taxation	252,314	221,304
Adjustments for:		
Depreciation of property, plant and equipment	8,181	5,084
Amortisation of intangible assets	116,333	114,882
Amortisation of lease prepayment for land use rights	360	90
Impairment of trade receivables	—	2,818
Interest income	(5,758)	(8,340)
Net foreign exchange loss	1,815	56
<b>Operating cash flows before movements in working capital</b>	<b>373,245</b>	<b>335,894</b>
Decrease/(increase) in inventories	10,813	(11,165)
Increase in trade and other receivables	(206,647)	(226,949)
(Decrease)/increase in trade and bills payables	(893)	49,140
Increase in other payables	13,702	28,644
<b>Cash generated from operations</b>	<b>190,220</b>	<b>175,564</b>
Interest received	5,758	8,340
Income tax paid	(23,155)	(13,378)
<b>Net cash generated from operating activities</b>	<b>172,823</b>	<b>170,526</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(3,559)	(1,547)
Net outflow of cash and cash equivalents from acquisition of a subsidiary accounted for as assets acquisition (Note 32)	—	(118,582)
Payment for the cost incurred of intangible assets	(138,722)	(101,753)
Proceed from/(placement) of pledged bank deposits	18,207	(18,207)
Proceeds from release of pledged bank deposits	—	26
Proceeds from release of structured bank deposits	—	255,000
<b>Net cash (used in)/generated from investing activities</b>	<b>(124,074)</b>	<b>14,937</b>
<b>Financing activities</b>		
Dividends paid	(28,862)	(24,181)
Purchase of shares under share award scheme	(55,191)	(12,255)
<b>Net cash used in financing activities</b>	<b>(84,053)</b>	<b>(36,436)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(35,304)</b>	<b>149,027</b>
Cash and cash equivalents at beginning of the year	277,415	128,444
Effect of foreign exchange rate changes	(1,815)	(56)
<b>Cash and cash equivalents at end of the year,     Representing bank balances and cash</b>	<b>240,296</b>	<b>277,415</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 6 January 2011. The Company's shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 July 2013. Its ultimate controlling party is Ms. Xin Yingmei ("Ms. Xin") who is also the director and chief executive of the Company. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company is an investment holding company. The principal activities of its subsidiaries (the Company and subsidiaries are collectively referred to as the "Group") in the People's Republic of China (the "PRC") are software development, system integration, sales of related computer products and provision of other related services.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

### (a) New and revised IFRSs adopted during the year

The Group has applied for the first time in the current year the following amendments to IFRSs:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRSs	Annual Improvements to IFRSs 2014 – 2016
	Amendments Cycle

The application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(S)”) – *continued*

### (b) New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRS 17	Insurance Contracts <sup>4</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 28	Investment in Associates and Joint Ventures <sup>2</sup>
Amendments to IAS 28	As part of the Annual Improvements to IFRSs Standards 2014 – 2016 Cycle <sup>1</sup>
Amendments to IAS 40	Investment Property: Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2015 – 2017 Cycle <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>2</sup>

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2021

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(S)”) – *continued*

#### (b) New and revised IFRSs issued but not yet effective – *continued*

##### *IFRS 9 Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company has reviewed its financial assets and liabilities and is expecting the following impacts from the adoption of the new standard on 1 January 2018:

The Group’s equity investment currently classified as available-for-sale financial assets will be reclassified to financial assets at fair value through profit or loss or FVTOCI, which is being under the process of the election. Based on the fair value assessments undertaken to date, the Group does not expect they will have material impacts on the consolidated financial statements.

There will be no impact on the Group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(S)”) – *continued*

### (b) New and revised IFRSs issued but not yet effective – *continued*

#### *IFRS 9 Financial Instruments – continued*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“ECL”) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVTOCI, contract assets under IFRS 15 ‘Revenue from contracts with customers’, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect material change of the loss allowance for the Group’s trade debtors held at amortised cost.

The new standard also introduces enhanced disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

#### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(S)”) – *continued*

#### (b) New and revised IFRSs issued but not yet effective – *continued*

##### *IFRS 15 Revenue from Contracts with Customers – continued*

In 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more and detailed disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

##### *IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised prepaid lease payment for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(S)”) – *continued*

### (b) New and revised IFRSs issued but not yet effective – *continued*

#### *IFRS 16 Leases – continued*

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group does not have any non-cancellable operating lease commitments and the directors of the Company anticipate that the application of IFRS 16 is unlikely to have a material impact on the Group’s consolidated financial statements.

Except for the new and amendments to IFRSs and Interpretations mentioned above, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the Group’s consolidated financial statements in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“Listing rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Investment in a subsidiary

Investment in a subsidiary is included in the Company's statement of financial position at cost less accumulated impairment losses.

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the normal course of business, net of sales related taxes.

When the outcome of a contract for system integration can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, as measured by the proportion that costs incurred to date to estimated total costs for each contract. When the outcome of the contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Revenue from sales of goods in the normal course of business is recognised when the goods are delivered and title has passed. Deposits received from customers in respect of sales of goods prior to meeting the above criteria on revenue recognition are included in trade and other payables.

After sales service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currency (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

#### Share-based payment arrangements

##### *Equity-settled share-based payment transactions*

##### *Share option scheme*

The Company operates a share option scheme under which the Group receives services or goods from its directors, employees and other eligible persons as consideration for share options of the Company. The fair value of the services or goods received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the share options, which is measured at grant date, taking into account the terms and conditions upon which the options were granted. Where the counterparties have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

**3. SIGNIFICANT ACCOUNTING POLICIES – *continued***

**Share-based payment arrangements – *continued***

***Equity-settled share-based payment transactions – continued***

***Share option scheme – continued***

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to accumulated profits).

**Share award scheme**

When the trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under share award scheme. Accordingly, the related expense of the granted shares is reversed from the share award reserve. The difference arising from such transfer is debited/credited to accumulated profits.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Taxation – *continued*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment after taking into account their estimated residual values, using the straight-line method, over their estimated useful lives as follows:

Building	20 years
Electrical equipment	3 years
Office equipment	5 years
Motor vehicles	3 – 8 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### Lease prepayments for land use rights

Lease prepayments for land use rights represent purchase cost of land use rights in the PRC and are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land in the PRC. Amortisation of lease prepayments for land use rights is calculated on a straight-line basis over the lease terms.

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policies in respect of impairment losses on non-current assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Intangible assets – *continued*

##### *Internally-generated intangible assets – research and development expenditures*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method.

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### Impairment losses on non-current assets

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

#### *Financial assets*

The Group's financial assets are classified into one of the following categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, structured bank deposits, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment (see accounting policy on impairment loss on financial assets below).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### *Financial instruments – continued*

#### *Financial assets – continued*

#### *Available-for-sale (“AFS”) financial assets*

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit and loss (“FVTPL”).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

#### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

**3. SIGNIFICANT ACCOUNTING POLICIES – *continued***

**Financial instruments – *continued***

***Financial assets – continued***

***Impairment of financial assets – continued***

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Financial liabilities***

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

#### *Financial instruments – continued*

#### *Financial liabilities and equity instruments – continued*

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

**3. SIGNIFICANT ACCOUNTING POLICIES – *continued***

**Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any members of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial year.

#### Impairment of trade receivables

Trade receivables are carried at amortised cost using the effective interest method, less any identified impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of trade receivables are RMB 799,258,000 (31 December 2016: RMB 551,685,000), net of allowance for doubtful debts of RMB 5,453,000 (31 December 2016: RMB 5,453,000).

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

##### Useful lives and impairment of intangible assets

The Group reviews the estimated useful lives of intangible assets at the end of each reporting period. Management is satisfied that there is no change in the estimated useful lives of the intangible assets from prior years.

At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately. The management is satisfied that no impairment loss is required to recognise during the year. As at 31 December 2017, the carrying amount of intangible assets are RMB 223,039,000 (31 December 2016: RMB 200,650,000).

##### Income tax

Certain subsidiaries of the Group were each entitled to a preferential corporate income tax rate for a specified period subject to satisfying certain conditions. Management generally applies the applicable preferential tax rate to calculate current income tax on the assumption that the subsidiaries will continue to meet the conditions and qualify for the preferential treatment as evidenced by past records. The consequence of any failure to meet the conditions and any changes in the applicable tax rate is adjusted in the year in which the information becomes known.

#### 5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

##### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, accumulated profits and other reserves.

The management of the Group reviews the capital structure on an on-going basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the repayment of existing debt.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

#### Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	2017 RMB'000	2016 RMB'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	1,040,709	847,953
Available-for-sale investments	2,000	2,000
	<u>1,042,709</u>	<u>849,953</u>
<b>Financial liabilities</b>		
Amortised cost	<u>99,141</u>	<u>104,752</u>

#### Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade and other payables, bank balances and cash and pledged bank deposits. Details of these financial instruments are disclosed in respective notes.

The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Foreign currency risk management

The primary economic environment in which the Group operates is the PRC and its functional currency is RMB. However, certain of the Group's bank balances and other payables are denominated in United States Dollars ("USD") and Hong Kong Dollars ("HKD"), which are currencies other than the functional currency of the relevant group entities and expose the Group to foreign currency risk.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued***Foreign currency risk management – *continued***

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting periods are as follows:

	2017 RMB'000	2016 RMB'000
<b>Assets</b>		
USD	7,934	6,662
HKD	<u>4,922</u>	<u>2,710</u>

**Foreign currency sensitivity analysis**

The following table details the Group's sensitivity to a 5% change in RMB against USD and HKD. This represents management's assessment of the reasonably possible fluctuation in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive/(negative) number below indicates an increase/(decrease) in profit for the year where the relevant foreign currencies strengthen 5% against RMB. For a 5% weakening of the relevant foreign currency against RMB, there would be an equal and opposite impact on the profit for the year.

	2017 RMB'000	2016 RMB'000
USD impact	397	333
HKD impact	<u>246</u>	<u>136</u>
	<u>643</u>	<u>469</u>

In the management's opinion, the sensitivity analysis is unrepresentative of inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

**Other price risk management**

In the opinion of the directors of the Company, the Group has no material other price risk exposure due to the short maturity period of the structured bank deposits. Accordingly, no sensitivity analysis is presented.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

#### Credit risk management

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

There is concentration of credit risk as the top five biggest customers account for approximately 49% of the carrying amounts of trade receivables as at 31 December 2017 (31 December 2016: 34%). The management of the Group generally grants credit only to customers with sound historical trading records and also closely monitors overdue trade debts. The recoverable amount of each individual trade receivable is reviewed at the end of each reporting period and adequate impairment for doubtful debts has been made for irrecoverable amounts.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings or are state owned.

Other than concentration of credit risk on cash and cash equivalents which are deposits with several banks with high credit ratings, the Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% of the total trade receivables as at 31 December 2017 (31 December 2016: 100%).

Other than concentration of credit risk on trade receivables, other receivables and cash and cash equivalents deposited at several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associates with its financial assets.

5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

## Liquidity risk management

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturities for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	On demand, or less than 3 months RMB'000	More than 3 months but less than 6 months RMB'000	More than 6 months but less than 1 year RMB'000	More than 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
<b>At 31 December 2017</b>							
<b>Financial liabilities</b>							
Trade and bills payables		74,587	604	2,723	1,482	79,396	79,396
Other payables		19,745	—	—	—	19,745	19,745
	—	<u>94,332</u>	<u>604</u>	<u>2,723</u>	<u>1,482</u>	<u>99,141</u>	<u>99,141</u>
<b>At 31 December 2016</b>							
<b>Financial liabilities</b>							
Trade and bills payables		72,346	387	2,862	4,694	80,289	80,289
Other payables		24,463	—	—	—	24,463	24,463
	—	<u>96,809</u>	<u>387</u>	<u>2,862</u>	<u>4,694</u>	<u>104,752</u>	<u>104,752</u>

The amounts included above for non-derivative financial liabilities bearing variable interest rates are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 5. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS – *continued*

#### Interest rate risk

The Group's interest rate risk arises primarily from pledged bank deposits and bank balances which were contracted at short-term variable rates and expose the Group to cash flow interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) *Interest rate risk*

	2017		2016	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate bank deposits	3.53	112,294	4.02	174,980
Variable rate bank deposits	0.31	127,949	0.32	120,561

#### (ii) *Sensitivity analysis*

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and accumulated profits by approximately RMB 1,152,000 (2016: RMB 996,000) respectively. Other components of equity would not be affected (2016: RMB Nil) by changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2016.

#### Fair value

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices, respectively; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair value.

## 6. REVENUE AND SEGMENTAL INFORMATION

The Group is organised into different business units by products, based on which information is prepared and reported to the Group's chief operating decision-maker (the "CODM") (i.e., the board of directors of the Company) for the purposes of resource allocation and assessment of performance.

For management purposes, the Group is organised into four core product lines, namely tax software and related services, low carbon & ecology software and related services, government big data software and related services and system integration solutions. These products form the basis on which the Group reports its segment information. During the year, the Group renames two product lines namely carbon management solutions to low carbon & ecology software and related services as well as the e-Government solutions to government big data software and related services in order to reflect the nature of a broader range of related software services in these two product lines. There is no change in comparative figures as a result of this change in names of product lines.

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Year ended 31 December			
	2017		2016	
	RMB'000	%	RMB'000	%
Segment revenue				
– Government big data software and related services	290,668	48	235,988	46
– Tax software and related services	153,442	26	134,724	26
– Low carbon & ecology software and related services	113,493	19	99,462	19
– System integration solutions	43,415	7	48,763	9
Total revenue	<u>601,018</u>	<u>100</u>	<u>518,937</u>	<u>100</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 6. REVENUE AND SEGMENTAL INFORMATION – *continued*

	Year ended 31 December			
	2017		2016	
	RMB'000	%	RMB'000	%
Segment results				
– Government big data software and related services	151,577	45	117,481	42
– Tax software and related services	124,979	37	118,605	42
– Low carbon & ecology software and related services	58,298	17	42,703	15
– System integration solutions	849	1	623	1
Total segment results	<u>335,703</u>	<u>100</u>	<u>279,412</u>	<u>100</u>
Other income and gains	11,893		10,311	
Distribution and selling expenses	(47,317)		(29,415)	
Administrative and general expenses	(45,787)		(38,536)	
Other expenses and losses	(2,178)		(468)	
Profit before taxation	252,314		221,304	
Taxation	(22,632)		(29,912)	
Profit and total comprehensive income for the year	<u>229,682</u>		<u>191,392</u>	

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales for current and prior year.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the sum of revenue and value-added tax refund less cost of sales and research and development costs of the relevant product line. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

The CODM does not review assets and liabilities by operating segment for the purpose of resource allocation and performance assessment.

**6. REVENUE AND SEGMENTAL INFORMATION – continued****Geographical information**

The Group's non-current assets are substantially located in the PRC, the place of domicile of the relevant group entities.

Substantially all of the Group's revenue is derived from the PRC, the place of domicile of the major subsidiaries, Nanjing Skytech Co., Limited ("Nanjing Skytech"), Jiangsu Skyinformation Co., Limited ("Jiangsu Skyinformation") and Nanjing Skytech Quan Shui Tong Information Technology Co., Limited ("Quan Shui Tong").

**Information about major customers**

Revenue from major customers which account for 10% or more of the Group's revenue is as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Customer A (Note)	60,745	68,479

Note: Revenue is generated from low carbon & ecology software and related services, government big data software and related services and system integration solutions.

**7. VALUE-ADDED TAX REFUND**

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Value-added tax refund	12,254	16,987

The amount represents the benefit of the refund of value-added tax ("VAT") on Group's sale of export tax software products, government big data solutions and low carbon software solutions received or receivable from the PRC tax authorities as part of the PRC government's policy of encouraging software development in the PRC. The sales of software products in the PRC are subject to VAT calculated at 17%. Companies which develop their own software products and have the software products registered with the relevant authorities in the PRC are entitled to a refund of VAT equivalent to the excess over 3% of the sales invoice amount paid in the month when output VAT exceeds input VAT.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 8. OTHER INCOME AND GAINS

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Interest income	5,758	8,340
Government grants (Note 1)	1,995	1,428
Others (Note 2)	4,140	543
	<u>11,893</u>	<u>10,311</u>

Note 1: The grants represent incentives received by the PRC subsidiaries for eminent contributions to technology development and encouragement of business development. These grants are accounted for as immediate financial support with no future related costs expected to be incurred, nor are they related to any assets.

Note 2: For the year ended 31 December 2017, others included compensation received of approximately RMB4,039,000 from a copyright infringement legal action.

### 9. OTHER EXPENSES AND LOSSES

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Donation	200	400
Net foreign exchange losses	1,815	56
Others	163	12
	<u>2,178</u>	<u>468</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 10. PROFIT BEFORE TAXATION

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit before taxation has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	8,181	5,084
Amortisation of lease prepayment for land use rights	360	90
Amortisation of intangible assets:		
Amortisation of capitalised software costs (included in cost of sales)	77,162	64,539
Amortisation of other software (included in research and development costs)	39,171	50,343
	<u>124,874</u>	<u>120,056</u>
Auditor's remuneration	1,637	2,548
Research and development costs recognised as an expense	45,301	62,217
Cost of inventories recognised as an expense	139,800	130,614
Impairment of trade receivables	—	2,818
Cost of defined contribution retirement benefit plans	4,960	4,597
Directors' emoluments	3,563	3,307
Employee benefits expenses	99,078	69,172
	<u>107,601</u>	<u>77,076</u>
Total staff cost	107,601	77,076
Less: amount included in capitalised software costs	(62,539)	(47,729)
	<u>45,062</u>	<u>29,347</u>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

	Ms. Xin	Mr. Yu Yifa	Mr. Zong Ping	Mr. Kang Choon Kiat	Mr. Kwauk Teh Ming, Walter	Mr. Hu Xiaoming, Simon (Note i)	Total 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	–	–	100	149	149	–	398
Other emoluments							
Salaries and benefits	2,237	805	–	–	–	–	3,042
Contribution to retirement benefits schemes	63	60	–	–	–	–	123
<b>Total emoluments</b>	<b>2,300</b>	<b>865</b>	<b>100</b>	<b>149</b>	<b>149</b>	<b>–</b>	<b>3,563</b>

	Ms. Xin	Mr. Yu Yifa	Mr. Zong Ping	Mr. Kang Choon Kiat	Mr. Kwauk Teh Ming, Walter	Mr. Hu Xiaoming, Simon (Note i)	Total 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	–	–	86	130	130	–	346
Other emoluments							
Salaries and benefits	2,108	753	–	–	–	–	2,861
Contribution to retirement benefits schemes	42	58	–	–	–	–	100
<b>Total emoluments</b>	<b>2,150</b>	<b>811</b>	<b>86</b>	<b>130</b>	<b>130</b>	<b>–</b>	<b>3,307</b>

Note:

(i) On 1 January 2017, Mr. Hu Xiaoming, Simon, was appointed as the non-executive director of the Company.

Ms. Xin and Mr. Yu Yifa are also the chief executive and chief financial controller respectively of the Company. Their emoluments disclosed above include their services rendered respectively as the chief executive and chief financial controller.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

**11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS – continued**

The five highest paid individuals in the Group included 2 directors of the Company (2016: 2 directors), for the years ended 31 December 2017, whose emoluments are set out above. The emoluments of the remaining 3 (2016: 3) individuals during the year were as follows:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Employees:		
– Salaries and other benefits	1,723	1,138
– Contributions to retirement benefit schemes	71	78
<b>Total</b>	<b>1,794</b>	<b>1,216</b>

During the year ended 31 December 2017, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No performance related incentive payments were paid to the directors and the five highest paid individuals. None of the directors has waived any emoluments during the year ended 31 December 2017.

The emoluments of these employees were within the following band:

	Year ended 31 December	
	2017 Number of employees	2016 Number of employees
Emolument band (in HK dollar) HKD Nil to HKD 1,000,000	3	3

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 12. TAXATION

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	24,335	22,304
Over provision in prior years	(60)	(4,325)
Deferred tax (credit)/charge:		
– Current year	(1,643)	11,933
	<u>22,632</u>	<u>29,912</u>

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Profit before taxation	<u>252,314</u>	<u>221,304</u>
Tax at income tax rate of 25% (2016: 25%)	63,078	55,326
Tax effect of expenses not deductible for tax purpose	9,254	10,692
Tax effect of income not taxable for tax purpose	(7,952)	(9,961)
Effect of PRC EIT exemption and concessions	(45,131)	(26,291)
Over provision of PRC EIT in prior years	(60)	(4,325)
Tax effect of tax losses not recognised	2,518	2,154
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(9,875)	(6,683)
Withholding income tax on undistributed profits attributable to the PRC subsidiaries	<u>10,800</u>	<u>9,000</u>
	<u>22,632</u>	<u>29,912</u>

#### Infotech Holdings Pte. Ltd. (“Infotech Holdings”)/The Company

The Company and Infotech Holdings, its subsidiary incorporated in Singapore, had no assessable profits subject to income tax in any jurisdictions since their incorporation.

## 12. TAXATION – *continued*

### PRC subsidiaries

The Company's subsidiaries established in the PRC are subject to PRC EIT at rates prevailing under the relevant laws and regulations in the PRC as follows:

1. On 31 October 2014, Nanjing Skytech and Jiangsu Skyinformation obtained "High-tech Enterprise" certificates. Accordingly, the applicable income tax rate for both Nanjing Skytech and Jiangsu Skyinformation from Year 2014 to Year 2016 are 15%. The latest review was conducted in October 2017, pursuant to which Nanjing Skytech and Jiangsu Skyinformation were granted the written certification by the relevant tax authorities, maintained its status as the "High-tech Enterprise", and was entitled to the preferential corporate income tax rate of 15% from Year 2017 to Year 2019.

In addition to being recognised as a "High-tech Enterprise", enjoying a preferential corporate income tax rate of 15%, if an enterprise is approved and certified by relevant regulatory authorities as "Key Software Enterprise under the National Plan" for the year, it can further enjoy a preferential tax rate of 10%. In 2016, Cai Shui [2016] No.49 has been enacted that an entity can register for the "Key Software Enterprise under the National Plan" with the tax bureau if the entity complies with relevant requirements. Nanjing Skytech was considered to meet those requirements. Therefore Nanjing Skytech used a preferential corporate income tax rate of 10% (year ended 31 December 2016: 10%) for the year ended 31 December 2017. The application of the preferential tax rate stated above is subject to critical accounting estimates of Group's management based on their past experience.

2. Quan Shui Tong was formerly eligible for certain tax holidays and concessions and were exempted from PRC EIT for two years starting from its first profit-making year, followed by a 50% reduction for the following three years. Quan Shui Tong commenced its first profit-making year in the financial year ended 31 December 2014. Accordingly, for the year ended 31 December 2017, Quan Shui Tong had a 50% reduction in PRC EIT (year ended 31 December 2016: 50% reduction). The tax holidays and concessions for Quan Shui Tong will end in the year ending 31 December 2018.
3. The applicable EIT rate for Zhenjiang Skyinformation Co., Limited ("Zhenjiang Skyinformation"), Jiangsu Skytech Investment Management Co., Limited, ("Jiangsu Skytech Investment"), Qingdao Skytech Software Co., Limited ("Qingdao Skytech Software") and Nanjing Aisita Real Estate Co., Limited ("Nanjing Aisita") are 25% for the years ended 31 December 2017 and 2016.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Earnings		
Profit for the year attributable to owners of the Company	<u>229,682</u>	<u>191,392</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share reconcile to the weighted average number of ordinary shares used in the calculation of diluted earnings per share as follows:

	Year ended 31 December	
	2017 '000	2016 '000
Weighted average number of ordinary shares for purpose of basic earnings per share calculation	<u>1,238,710</u>	<u>1,238,710</u>

For the year ended 31 December 2017, dilutive earnings per share has not been calculated as there is no potential dilutive shares outstanding.

### 14. DIVIDENDS

	Year ended 31 December	
	2017 RMB'000	2016 RMB'000
Dividend recognised as distribution during the year:		
Final dividend of RMB 2.33 cents per share for the year ended 31 December 2016	28,862	—
Final dividend of RMB 1.95 cents (adjusted for bonus issue) per share for the year ended 31 December 2015	<u>—</u>	<u>24,181</u>

A final dividend of RMB 2.78 cents per share (2016: RMB 2.33 cents per share) has been proposed by directors of the Company on 26 March 2018 and it is subject to the approval by the shareholders in the forthcoming annual general meeting.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Electrical equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>COST</b>					
At 1 January 2016	2,596	13,598	3,172	5,361	24,727
Additions	—	1,328	219	—	1,547
Arising from acquisition of a subsidiary (Note 32)	102,817	—	3	—	102,820
At 31 December 2016 and 1 January 2017	105,413	14,926	3,394	5,361	129,094
Additions	—	2,069	1,490	—	3,559
At 31 December 2017	105,413	16,995	4,884	5,361	132,653
<b>DEPRECIATION</b>					
At 1 January 2016	1,781	9,006	2,607	3,281	16,675
Provided for the year	1,467	2,502	295	820	5,084
At 31 December 2016 and 1 January 2017	3,248	11,508	2,902	4,101	21,759
Provided for the year	5,036	1,969	396	780	8,181
At 31 December 2017	8,284	13,477	3,298	4,881	29,940
<b>CARRYING VALUES</b>					
At 31 December 2017	97,129	3,518	1,586	480	102,713
At 31 December 2016	102,165	3,418	492	1,260	107,335

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 16. LEASE PREPAYMENT FOR LAND USE RIGHTS

	RMB'000	
<b>COST</b>		
At 1 January 2016		—
Arising from acquisition of a subsidiary (Note 32)		<u>15,118</u>
At 31 December 2016, 1 January 2017 and 31 December 2017		<u>15,118</u>
<b>AMORTISATION</b>		
At 1 January 2016		—
Charge for the year		<u>90</u>
At 31 December 2016 and 1 January 2017		90
Charge for the year		<u>360</u>
At 31 December 2017		<u>450</u>
<b>CARRYING VALUES</b>		
At 31 December 2017		<u><u>14,668</u></u>
At 31 December 2016		<u><u>15,028</u></u>
	<b>As at 31 December</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	<b>RMB'000</b>
Analysed for reporting purposes as:		
Current assets (included in trade and other receivables)	<u>360</u>	314
Non-current assets	<u>14,308</u>	14,714
	<u><u>14,668</u></u>	<u><u>15,028</u></u>

Lease prepayment for land use rights represented the land use rights of the land located at No. 26 Tianpu Road, Jiangpu Street, Pukou District, Nanjing City, Jiangsu, the PRC.

Land in the PRC is state-owned or collectively-owned and no individual land ownership rights exists. Lease prepayments for land use rights represent the Group's interests in lands which are held on a medium lease term.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 17. INTANGIBLE ASSETS

	Capitalised software costs RMB'000	Other software RMB'000	Total RMB'000
<b>COST</b>			
At 1 January 2016	328,623	182,121	510,744
Additions	61,654	40,099	101,753
At 31 December 2016 and 1 January 2017	390,277	222,220	612,497
Additions	97,393	41,329	138,722
Transfer	5,775	(5,775)	—
At 31 December 2017	493,445	257,774	751,219
<b>AMORTISATION</b>			
At 1 January 2016	173,470	123,495	296,965
Charge for the year	64,539	50,343	114,882
At 31 December 2016 and 1 January 2017	238,009	173,838	411,847
Charge for the year	77,162	39,171	116,333
At 31 December 2017	315,171	213,009	528,180
<b>CARRYING VALUES</b>			
At 31 December 2017	178,274	44,765	223,039
At 31 December 2016	152,268	48,382	200,650

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Capitalised software costs	3 years
Other software	2 years



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 18. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Unlisted equity securities, at cost	2,000	2,000

The balance represents 4% equity investment in Jiangsu Cyberunion Information Industry Institute Union Co., Limited 江蘇賽聯信息產業研究院股份有限公司 (“Cyberunion”), a private entity established in the PRC. The investment in Cyberunion is measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

### 19. DEFERRED TAX

The followings are the major deferred tax assets/(liabilities) recognised by the Group and movements thereon during the year:

	Allowance for doubtful receivables RMB'000	Withholding tax on undistributed profits RMB'000	Capitalised software costs RMB'000	Total RMB'000
At 1 January 2016	395	(8,038)	(23,701)	(31,344)
Credit/(charge) to profit or loss	422	(9,000)	(3,355)	(11,933)
At 31 December 2016 and 1 January 2017	817	(17,038)	(27,056)	(43,277)
Credit/(charge) to profit or loss	(272)	(10,800)	12,715	1,643
At 31 December 2017	545	(27,838)	(14,341)	(41,634)

Under the PRC enterprise income law, withholding income tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2017, the Group has fully provided the deferred tax liabilities of withholding tax on the undistributed earnings of the PRC subsidiaries.

The deferred tax balance has reflected the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 19. DEFERRED TAX – *continued*

The Group has unused tax losses of RMB 10,346,000 available for offset against future profits as at 31 December 2017 (31 December 2016: RMB 23,288,000). No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unused tax losses arising from subsidiaries operated in the PRC will expire in two to five (2016: three to five) years for offsetting against future taxable profits. Other than the above amounts, at the end of each reporting period, the Group had no other significant unrecognised deferred taxation.

### 20. INVENTORIES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Purchased system integration solution related products	1,983	12,743
Packaging materials	—	53
	<u>1,983</u>	<u>12,796</u>

### 21. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Accounts receivables		
Third parties	804,711	557,138
Less: Allowance for doubtful debts	(5,453)	(5,453)
	<u>799,258</u>	<u>551,685</u>
Prepayments to suppliers	5,223	24,031
Prepayment to the trustee (Note 30(b))	1	23,525
Deposits	4,122	2,015
VAT recoverable	1,986	2,242
Advances to employees	1,831	2,785
Lease prepayment for land use rights (Note 16)	360	314
Others	1,155	646
	<u>1,155</u>	<u>646</u>
Total trade and other receivables	<u>813,936</u>	<u>607,243</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 21. TRADE AND OTHER RECEIVABLES – *continued*

The Group's trade customers are principally government agencies and the Group offered credit terms to them with reference to the expected timing of settlement being around one year. A longer credit term may be extended to certain customers depending on price, the size of the contract, credibility and reputation. The following is an aged analysis of trade receivables, net of allowance for doubtful debts and is presented based on the date of delivery of goods or the rendering of services to customers which approximated the respective dates on which revenue was recognised.

There were no pledge trade receivables of the Group as at 31 December 2017. In prior year as at 31 December 2016, trade receivables of approximately RMB 230,000,000 were pledged to secure the credit facilities granted to the Group as detailed in Note 31 below.

	As at 31 December	
	2017 RMB'000	2016 RMB'000
0 – 60 days	299,208	266,958
61 – 90 days	9,302	6,513
91 – 180 days	575	6,642
181 – 365 days	163,039	93,423
Over 1 year but less than 2 years	219,944	108,815
Over 2 years	107,190	69,334
	<u>799,258</u>	<u>551,685</u>

At 31 December 2017, 59% of the trade receivables (31 December 2016: 68%) are neither past due nor impaired. No impairment loss is provided for these receivables because they are within the credit period granted to the respective customer and the management considers the default rate to be low for such receivables based on historical information and experience.

Included in the Group's trade receivables are debtors with a carrying amount of RMB 327,134,000 as at 31 December 2017 (31 December 2016: RMB 178,149,000), which were overdue for which the Group has not provided for impairment loss as there has not been a significant change in good credit quality and the amounts are still considered recoverable.

**21. TRADE AND OTHER RECEIVABLES** – *continued***Ageing of trade receivables which are past due but not impaired**

	As at 31 December	
	2017 RMB'000	2016 RMB'000
1 – 2 years	219,944	108,815
Over 2 years	107,190	69,334
Total	327,134	178,149

The Group does not hold any collateral over these balances. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the management believes that no further allowance is required.

**Movement in the allowance for doubtful debts for trade receivables**

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	5,453	2,635
Impairment losses recognised	—	2,818
Balance at end of the year	5,453	5,453

**22. PLEDGED BANK DEPOSITS**

In prior year, pledged bank deposits of the Group represented deposits pledged against certain bank facilities granted, carrying fixed interest rates at 0.30% to 2.80% per annum as at 31 December 2016. There were no pledged bank deposits as at 31 December 2017 as all pledged bank deposits of the Group were released in the year.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 23. BANK BALANCES AND CASH

Bank balances of the Group carry interest at market rates of 0.35% to 4.35% per annum at 31 December 2017 (31 December 2016: 0.35% to 4.78%).

The Group's bank balances and cash that are denominated in currency other than the functional currency of the relevant group entities are set out below:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Denominated in:		
USD	7,934	6,662
HKD	4,922	2,710
Balance at end of the year	<u>12,856</u>	<u>9,372</u>

### 24. TRADE AND BILLS PAYABLES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Trade payables	79,396	47,243
Bills payables	—	33,046
	<u>79,396</u>	<u>80,289</u>

At 31 December 2016, bills payables were secured by bank deposits and trade receivables (see Note 31).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 24. TRADE AND BILLS PAYABLES – *continued*

Trade and bills payables comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit within 90 days from the invoice date. The following is an aged analysis of trade and bills payables presented based on the invoice date as at end of each reporting period:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
0 to 90 days	74,587	72,346
91 to 180 days	604	387
181 to 365 days	2,723	2,862
Over 1 year	1,482	4,694
	<u>79,396</u>	<u>80,289</u>

### 25. OTHER PAYABLES

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Advances from customers	1,796	722
Payroll payables	16,775	10,613
VAT and other tax payables	58,104	40,758
Others	2,970	13,850
	<u>79,645</u>	<u>65,943</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 26. SHARE CAPITAL

#### (a) Shown on the consolidated statement of financial position

	Number of shares	
	'000	RMB'000
At 1 January 2016 issued and fully paid shares of HKD 0.01	1,032,258	8,232
Issue of shares (Note (b))	<u>206,452</u>	<u>1,777</u>
At 31 December 2016, 1 January 2017 and 31 December 2017, issued and fully paid shares of HKD 0.01	<u>1,238,710</u>	<u>10,009</u>

#### (b) Issue of shares

On 19 September 2016, the Company issued 206,451,600 ordinary shares of HKD 0.01 each (“Bonus Shares”) on the basis of one new share for every five existing shares held (the “Bonus Issue”). The Bonus Shares were credited as fully paid by way of capitalisation of HKD 2,064,516 of the share premium account of the Company. Details of the Bonus Issue are set out in the Company’s circular dated 17 August 2016 and announcements dated 2 September 2016 and 19 September 2016.

### 27. RESERVES

#### PRC Statutory Reserve

Pursuant to the relevant laws and regulations in the PRC applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiaries, the PRC subsidiaries are required to maintain a statutory surplus reserve fund. Appropriations to these funds are made out of net profit after taxation as reported in the PRC statutory financial statements of the subsidiaries (the “PRC Accounting Profit”).

The subsidiaries are required to transfer 10% of their PRC Accounting Profit to the statutory surplus reserve fund until the balance reaches 50% of the registered capital of the PRC subsidiaries. The statutory surplus reserve fund may be used to make up prior year losses incurred or to increase capital.

#### Capital Reserve

As part of a reorganisation (the “Reorganisation”) as set out in the section headed “History Reorganisation and Group Structure” in the Company’s prospectus dated 27 June 2013 in relation to its global offering of the Company’s shares, the Company acquired 100% interest in Infotech Holdings in January 2011 and became the holding company of the Group. An amount of RMB 891,000 representing the nominal value of share capital of Infotech Holdings was credited to capital reserve upon the Reorganisation. Further in 2011, an amount of RMB 1,736,000 arising from an indemnification of an equal amount from Ms. Xin was credited to capital reserve.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 27. RESERVES – *continued*

#### Share premium

Under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as when they fall due in the ordinary course of business.

### 28. OPERATING LEASES

Minimum lease payments paid under operating leases during the year:

	2017 RMB'000	2016 RMB'000
Minimum lease payments paid under operating leases during the year	<u>1,730</u>	<u>12,113</u>

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating leases in respect of its office premises which fall due as follows:

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Within one year	<u>–</u>	<u>–</u>

Operating lease payments represented rentals payable by the Group for certain of its offices premises before the acquisition of a subsidiary owning these premises as mentioned in note 32 below. Leases were originally negotiated for terms of 1 year at fixed rental.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 29. RETIREMENT BENEFIT PLANS

Pursuant to the relevant regulations of the PRC government, Nanjing Skytech, Jiangsu Skyinformation, Quan Shui Tong, Zhenjiang Skyinformation and Jiangsu Skytech Investment have participated in central pension schemes (the “Schemes”) operated by the local municipal government and the Group is required to contribute certain percentage of the basic salaries of its employees to the Schemes to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of Nanjing Skytech, Jiangsu Skyinformation, Quan Shui Tong, Zhenjiang Skyinformation and Jiangsu Skytech Investment. The only obligation of Nanjing Skytech, Jiangsu Skyinformation, Quan Shui Tong, Zhenjiang Skyinformation and Jiangsu Skytech Investment with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the profit or loss as when incurred.

The total amounts contributed by the Group to the Schemes and charged to profit or loss represent contribution payable to the Schemes by the Group at rates specified in the rules of the Schemes and are as follows:

	2017 RMB'000	2016 RMB'000
Amounts contributed and charged to profit or loss	<u>1,748</u>	<u>1,478</u>

### 30. SHARE-BASED PAYMENT TRANSACTIONS

#### (a) Pre-IPO Share Option Scheme

Pursuant to the written solution passed on 11 June 2013, the Company adopted a pre-IPO share option scheme (the “Share Option Scheme”) to (i) motivate the personnel to optimise their performance efficiency for the benefit of the Group; and (ii) attract and retain or otherwise maintain an on-going business relationship with the personnel whose contributions are or will be beneficial to the long-term growth of the Group. The Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

Under the Share Option Scheme, the Board of Directors of the Company (the “Directors”) may grant options to (i) any employees, executives, officers or any directors (including independent non-executive directors) of the Company or any of its subsidiaries; and (ii) any advisors, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Directors will contribute or have contributed to the Company or any of its subsidiaries.

**30. SHARE-BASED PAYMENT TRANSACTIONS – *continued*****(a) Pre-IPO Share Option Scheme – *continued***

Upon acceptance of the option, the grantee shall pay HKD 1 to the Company by way of consideration for the grant. The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 100,000,000 shares. The limit may be renewed at any time to 10% of the shares in issue as at the date of the approval by the shareholders in general meeting. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme of the Company at any time shall not exceed 30% of the shares in issue from time to time. The maximum number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme of the Company to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of that 1% of the shares in issue as at the date of grant shall be subject to the issue of a circular by the Company and the approval of shareholders in general meeting. Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates is required to be approved by the independent non-executive Directors. If the Directors propose to grant options to a substantial shareholder or any independent non-executive director or their respective associates in aggregate over 0.1% of the shares in issue; and with aggregate value in excess of HKD 5 million will be subject to the issue of a circular by the Company and the approval of the shareholders in general meeting.

Options may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the options are deemed to be granted and accepted and prior to the expiry of 10 years from that date. The exercise price is determined by the Directors, and must be at least the higher of (i) the official closing price of the shares as stated in the Stock Exchange's daily quotation sheets on the date of grant; (ii) the average of the official closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

As at 31 December 2017, no option has been granted under the Share Option Scheme since its adoption date.

**(b) Share Award Scheme**

The Company adopted a share award scheme (the "Share Award Scheme") on 13 December 2016 (the "Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme are to (i) recognise and motivate the contributions by certain employees and non-executive directors of the Company and/or any member of the Group who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Company and/or any member of the Group ("Eligible Participants") and to give incentives thereto in order to retain them for the continual operation and development of the Group; (ii) attract suitable personnel for further development of the Group; and (iii) provide certain Eligible Participants with a direct economic interest in attaining a long-term relationship between the Group and certain Eligible Participants.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 30. SHARE-BASED PAYMENT TRANSACTIONS – *continued*

#### (b) Share Award Scheme – *continued*

The Company has engaged ARK Trust (Hong Kong) Limited (the “Trustee”) to administer and hold the Company’s shares with a sum of up to HKD 40,000,000 (equivalent to RMB 35,780,000) before they are vested and transferred to the Eligible Participants. The Trustee purchases the Company’s shares being awarded from the open market with funds provided by the Company by way of contributions.

During the year ended 31 December 2016 and 31 December 2017, 5,550,000 and 10,303,000 ordinary shares of the Company have been acquired by the company through its trustee, ARK Trustee (Hong Kong) Limited (the “Trustee”), at aggregate costs of approximately HKD 13,700,000 (equivalent to approximately RMB 12,255,000) and HKD 26,300,000 (equivalent to approximately RMB 23,396,000) (the “First Contributed Amount”) respectively.

Pursuant to the Company’s announcement dated 12 June 2017, the Board of Directors further resolved to set aside a sum of up to HKD 50,000,000 (equivalent to approximately RMB 44,131,000) for the purchase of Company’s ordinary shares through the Trustee to be awarded to be Eligible Participants as to be selected by the Board of Directors (the “Second Contributed Amount”). The Second Contributed Amount will be paid to the trustee as and when required.

During the year ended 31 December 2017, 15,577,000 ordinary shares of the Company have been acquired by the Company through its Trustee, at an aggregate cost of approximately HKD 37,398,000 (equivalent to approximately RMB 31,795,000).

As at 31 December 2017, no shares have been granted or agreed to be granted to any Eligible Participants pursuant to the Share Award Scheme.

### 31. PLEDGE OF ASSETS

As at 31 December 2016, trade receivables of RMB 230,000,000 and bank deposits of approximately RMB 18,175,000 were pledged to the bank to secure credit facilities to the extent of RMB 15,000,000 granted to the Group of which RMB 14,871,000 was utilised by the Group. There were no such pledged trade receivables and bank deposits at 31 December 2017 because the credit facilities had matured with no renewal in 2017.

**32. ACQUISITION OF A SUBSIDIARY ACCOUNTED FOR AS ASSETS ACQUISITION**

On 12 September 2016, Jiangsu Skytech Investment, a wholly-owned subsidiary of the Company, completed the acquisition of a 100% equity interest in Nanjing Aisita from Nanjing Jingtian Technology Co., Limited, a subsidiary of Team United Investments Limited which is a non-controlling shareholder of the Company, at a cash consideration of RMB 121,395,700. The directors of the Company are of the opinion that the acquisition of Nanjing Aisita is in substance an asset acquisition rather than a business combination, as the net assets of the Nanjing Aisita were mainly properties and lease prepayments for land use rights and Nanjing Aisita was inactive prior to acquisition by the Group.

Net assets of the Nanjing Aisita acquired:

	RMB'000
Property, plant and equipment	102,820
Lease prepayment for land use rights	15,118
Other receivables	1,073
Bank balances and cash	2,814
Other payables	(244)
Tax liabilities	(185)
	<u>121,396</u>

An analysis of the cash flows in respect of the assets acquisition is as follows:

	RMB'000
Cash consideration	(121,396)
Cash and cash equivalents acquired	<u>2,814</u>
Net outflow of cash and cash equivalents in respect the acquisition	<u>(118,582)</u>

**33. RELATED PARTY DISCLOSURES**

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the year were as follows:

	2017 RMB'000	2016 RMB'000
Short term benefits	5,163	4,345
Retirement benefits scheme contributions	194	178
	<u>5,357</u>	<u>4,523</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 RMB'000	2016 RMB'000
<b>Non-current assets</b>			
Investments in subsidiaries	(a)	132,879	132,879
Property, plant and equipment		6	22
		<u>132,885</u>	<u>132,901</u>
<b>Current assets</b>			
Amounts due from subsidiaries		42,551	45,680
Prepayment to the trustee		1	23,525
Bank balances and cash		54,730	34,597
		<u>97,282</u>	<u>103,802</u>
<b>Current liabilities</b>			
Other payables		731	1,581
		<u>731</u>	<u>1,581</u>
<b>Net current assets</b>		<u>96,551</u>	<u>102,221</u>
<b>Net assets</b>		<u>229,436</u>	<u>235,122</u>
<b>Capital and reserves</b>			
Share capital		10,009	10,009
Reserves	(b)	219,427	225,113
<b>Total equity</b>		<u>229,436</u>	<u>235,122</u>

(a) A list of the Company's subsidiaries is shown in Note 35 to the consolidated financial statements.

(b) Movement of the Company's reserves

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *continued*

	Share premium RMB'000	Accumulated losses RMB'000	Shares held under share award scheme RMB'000	Total RMB'000
At 1 January 2016	299,788	(60,753)	—	239,035
Profit and total comprehensive income for the year	—	24,291	—	24,291
Dividend (note 14)	—	(24,181)	—	(24,181)
Purchase of shares under share award scheme (note 30(b))	—	—	(12,255)	(12,255)
Issue of shares (note 26(b))	(1,777)	—	—	(1,777)
At 31 December 2016 and 1 January 2017	298,011	(60,643)	(12,255)	225,113
Profit and total comprehensive income for the year	—	78,367	—	78,367
Dividend (note 14)	—	(28,862)	—	(28,862)
Purchase of shares under share award scheme (note 30(b))	—	—	(55,191)	(55,191)
At 31 December 2017	<u>298,011</u>	<u>(11,138)</u>	<u>(67,446)</u>	<u>219,427</u>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ operation and type of legal entity	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2017 %	2016 %	2017 %	2016 %	
Infotech Holdings Pte. Ltd.	Singapore, limited company	SGD 27,538,640	100	100	—	—	Investment holding
Nanjing Skytech Co., Limited 南京擎天科技有限公司 (Note 1)	PRC, limited company	RMB 200,000,000	—	—	100	100	Software development, system integration, sales of related computer products and provision of solution services
Jiangsu Skyinformation Co., Limited 江蘇擎天信息科技有限公司 (Note 1)	PRC, limited company	RMB 35,000,000	—	—	100	100	Software outsourcing service and development on sale of information integration
Nanjing Skytech Quan Shui Tong Information Technology Co., Limited 南京擎天全稅通信息科技有限公司 (Note 1)	PRC, limited company	RMB 10,000,000	—	—	100	100	Development and sale of export tax software
Zhenjiang Skyinformation Co., Limited 鎮江擎天信息科技有限公司 (Note 1)	PRC, limited company	RMB 5,000,000	—	—	100	100	Development and sale of software and system related products and services
Jiangsu Skytech Investment Management Co., Limited 江蘇擎天科技投資管理有限公司 (Note 1)	PRC, limited company	USD 83,650,000	—	—	100	100	PRC investment and advisory
Qingdao Skytech Software Co., Limited 青島擎天軟件有限公司 (Note 1)	PRC, limited company	RMB 10,000,000	—	—	100	100	Computer products of System integration and software development
Nanjing Aisita Real Estate Co., Limited 南京艾斯特置業有限公司 (Note 1)	PRC, limited company	RMB 120,000,000	—	—	100	100	Properties holding

Note 1: The English translation of the name is for reference only. The official name of the entity is in Chinese.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

### 36. CONTINGENT LIABILITIES

Nanjing Skytech has been involved in a series of disputes with Janful Limited (“Janful”) over a joint venture company set up between Nanjing Skytech and Janful in 2000. Various legal actions were commenced by Janful for claims against the Group, most of which were dismissed by courts or were subsequently withdrawn. On 15 September 2015, the Group received a court order issued by the Nanjing Intermediate People’s Court, ordering the defendants of the Group to pay damages of approximately RMB 27,906,000 to Nanhua Skytech Technology Co., Ltd (南京南華擎天資訊科技有限公司) (“Nanhua Skytech”). The Group had issued a defend letter and filed an appeal to the Higher People’s Court of Jiangsu Province (“Higher Court”). On 1 July 2016, the Group received a judgement made by the Higher Court to maintain the claim of Nanhua Skytech. On 11 July 2016, the Group issued another defend letter to the Supreme People’s Court of The People’s Republic of China (“Supreme People’s Court”). On 3 August 2016, the Group received a notice of case registration from the Supreme People’s Court. In October 2016, the Group issued a supplementary defend letter to the Supreme People’s Court. Pursuant to the Company’s further announcements dated 6 December 2015, Janful filed an application to the Beijing Fourth Intermediate People’s Court (the “Beijing Court”) for the revocation of the China International Economic and Trade Arbitration Commission Arbitral Award (“CIETAC Arbitral Award”) which was given in favour of Nanjing Skytech. After these trials, the Beijing Court made a judgement that the rationale for Janful’s application to revoke the CIETAC Arbitral Award was unsubstantiated. On 7 November 2016, the Beijing Court issued a decision to dismiss Janful’s application of revoking the CIETAC Arbitral Award. This decision is final and conclusive with effect from 7 November 2016 as per Company’s announcement dated 14 November 2016. The directors believe, based on legal advice, that the action (for the case in the Supreme People’s Court) can be successfully defended and therefore no losses (including claims for costs) will be incurred. Accordingly, no provision for any of such claims was made in the consolidated financial statements at 31 December 2017 and prior year.

Based on the aforesaid, the Company is still liable for a damage of approximately RMB 27,906,000 to Nanhua Skytech, however, the Group would like to emphasize that as disclosed in the Company’s prospectus dated, 27 June 2013, any potential economic losses arising as a result of the above case will be borne by the original shareholders and any net loss arising from above case will only be 66.7% of the gross amount.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

### 37. EVENTS AFTER THE REPORTING PERIOD

On 20 March 2018, Nanjing Skytech, a wholly-owned subsidiary of the Company, entered in a contribution agreement (the “Agreement”) with Focus Technology Company Limited (“Focus Technology”, a company listed on the Shenzhen Stock Exchange, Stock Code: 002315), Nanjing Sample Technology Co., Ltd. (“Sample Technology”, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited, Stock Code: 1708) in respect of the formation of a joint venture in the PRC (the “Joint Venture”) to provide information services such as full trade process operations, data management, and decision analysis for import and export enterprises.

Pursuant to the Agreement, it is intended that the shareholding of the Joint Venture would be, after its formation, be held as to 65%, 17.5% and 17.5% by Nanjing Skytech, Focus Technology and Sample Technology, respectively. The proposed total registered capital of the Joint Venture shall be RMB10,000,000, and was determined by the parties to the Agreement with reference to the initial capital requirement for the business development of the Joint Venture. For details, please refer to the Company’s announcement dated 21 March 2018.

### 38. COMPARATIVE FIGURES

Certain comparative figures have been amended in order to conform with the current year’s presentation.